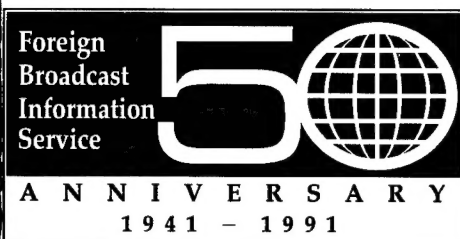


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30 MAY 1991



# ***JPRS Report***

# **China**

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## GENERAL

### Prospects for New Asian-Pacific Political Order

91CM0400A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 29, 28 Feb 91 pp 9-13

[Article by Chen Qimao (7115 0796 2021), Shanghai International Problems Institute: "Contemplating the Significantly Changing Asian-Pacific International Structure"]

[Excerpt] [passage omitted] *The term Asian-Pacific region as used in this article refers to the Asian countries and territories around the Pacific Ocean including China, Japan, the "four small dragons" of Asia (South Korea, Singapore, China's Taiwan Province, and Hong Kong), Southeast Asia, and the Soviet Far East. Of course, when talking about the Asian-Pacific region, one cannot omit the United States, nor can one fail to mention South Asia when touching on the region's security problems.*

## II

However, various circumstances show significant changes also to be under way in the Asian-Pacific international structure. On the one hand, some Asian and Pacific countries are making major readjustments in their own internal and external policies, and, on the other hand, following completion of the unification of Germany and with European affairs largely in order, the two superpowers will devote more energy to the Asian-Pacific region. These changes will begin to develop gradually beginning in 1991.

### Factors Impelling Major Changes in the Asian-Pacific Structure Are:

**1. Japan Continues To Rise and Become a Major Political Power.** The "boom from the appreciation of the Japanese yen" which began in December 1986 has gone on for 48 months and the development impetus remains rather good today. In 1987, the Japanese economy's growth rate was 5.2 percent; in 1988, it was 5.1 percent; and in 1989, it was 5 percent. Judging from the present situation, this prosperity is likely to continue into 1991. This will exceed the longest post-war "Izanagi boom" (November 1965 to July 1970). As a result of the sustained fairly high-speed development, Japan's GNP is now 60 percent that of the United States. Japan surpassed the United States in per capita GNP in 1987, and in 1988 it surpassed Sweden to become first in the world. For four years running, Japan has been the world's largest creditor nation, the largest overseas investor country, and the biggest foreign aid country. The 10 largest banks in the world are Japanese. With the expansion of Japan's economic strength, Japan's economic competition with the United States is becoming more intense; trade frictions occur constantly; and Japan's favorable balance of trade with the United States grows higher and higher, hovering around \$50 billion for the past three years. Japan's dramatic increase in investment in the United

States, particularly its purchase of Columbia Motion Picture Corporation in Hollywood and Rockefeller Center in New York has stirred national feeling in the United States. Repeated U.S. pressure on Japan to open markets, change its economic structure and laws, and increase its military payments burdens (including the payment burden for the recent Gulf crisis) have aroused a deep reaction in Japan. In order to safeguard its constantly expanding economic interests, Japan has sought to change its status as an economic giant and a political dwarf. With the reelection of the Kaifu cabinet to office, becoming a major political power has changed from a slogan to a reality. During 1990, Prime Minister Kaifu visited eastern Europe, Southeast Asia, and South Asia. He mediated the India-Pakistan dispute, and he tried his hand at mediating the Cambodian civil war. At the June 1990 four-party Tokyo conference on Cambodia, which the Japanese foreign minister chaired, in particular, despite the rejection by Democratic Kampuchea, Japan made efforts to get the other three parties in Cambodia to reach a "Tokyo agreement." This was unprecedented in the history of postwar Japan. At the seven Western heads of state conference, Japan repeatedly played the role of spokesman for Asia, thereby strengthening its right to speak in the West. In order to buttress its position as a major political power, Japan is also trying to increase its military strength appropriately. Japan's military expenditures have been third largest in the world for many years running. The intention and the reality of Japan's becoming a major power will, without doubt, produce a major effect on the Asian-Pacific international structure.

**2. New Major Readjustments of the USSR's Asian-Pacific Policy.** Now that the situation in Europe has been settled, the USSR will further apply the "new thinking" to the Asian-Pacific region, take new foreign policy initiatives, and launch a new peace offensive. Gorbachev's visit to Japan in April 1991 will be an important turning point. During this visit, Gorbachev may show major flexibility about issue of the four northern islands for a breakthrough in Japan-Soviet relations. Gorbachev may also raise new proposals for Asian-Pacific arms reductions and collective security, or even unilaterally declare a reduction in certain military forces. If Gorbachev's visit to Japan is successful, the signing of a peace treaty between Japan and the USSR will be in the offing. This could generate important, or even dramatic, effects in the Asian-Pacific region, propelling changes in the Asian-Pacific international structure. In addition, the USSR has established diplomatic relations with South Korea. Both the USSR and Korea hold a positive attitude about the development of mutual relations. South Korea desires that the USSR restrain North Korea, and it also seeks Siberia's plentiful resources. The USSR also wants to kill two birds with one stone, namely to try to get capital and technology from South Korea to accelerate development of the Soviet Far East, while also trying to get South Korea to pressure Japan into being flexible with regard to relations with the USSR. The USSR has received a promise of a \$3 billion loan from



South Korea. In 1991, a visit of Gorbachev to South Korea may also materialize. In short, so long as no major turmoil occurs within the USSR, it may take a series of major foreign policies actions in the Asian-Pacific region in 1991. Their effect should be thoroughly appraised.

**3. Gradual Reduction of U.S. Forces Stationed in Asia and the Pacific, and Readjustment of the U.S. Asian-Pacific Strategy.** The Asian-Pacific region is critical to important U.S. political and economic interests. The United States positively will not willingly give up its sphere of influence and power in the Asian-Pacific region. However, as the situation eases, and as domestic fiscal pressures mount, the United States will ultimately gradually reduce its ground forces in the Asian-Pacific area. The United States has already reached agreement with South Korea on the withdrawal from Korea of 7,000 troops within three years. The United States has proposed to the Philippines a phased withdrawal from Clark Air Force Base and the Subic Bay naval base within 10 years. In order to contain the USSR and prevent Japan from becoming a new major military power, the United States plans to maintain military bases and forces in Japan, and wants Japan to share more of the expenses of stationing forces there. However, should a peace treaty be signed between Japan and the USSR, and if major advances are made in the reduction of forces in the Asian-Pacific region, there will be no reason for the United States to station forces in Japan for a long time, and it will be gradually forced to withdraw them. The relative economic decline of the United States and reduction of its forces in the Asian-Pacific region will bring about a corresponding reduction of U.S. influence in the Asian-Pacific region. At the same time, it will damage the existing balance in this region and cause the appearance of new imbalance and a "political void" that leads to changes in the international structure of the Asian-Pacific region. In view of these circumstances, the United States is now planning countermeasures, both maintaining a cautious policy about withdrawal of its forces and also striving to strengthen its mobile sea and air power in the Asian-Pacific region in an effort to establish a new international order headed by the United States in order to protect its interests in the Asian-Pacific region.

**4. Korean Peninsula Situation Changing.** There have been three rounds of talks between the premiers of the north and the south. President No Tae-U met with the prime minister of the northern part of Korea, Yon Hyong-muk. Chairman Kim Il-song met with Prime Minister Kang Yong-hun from the south. Although the positions of both parties were very far apart and no major agreements were possible within a short period of time, nevertheless, these high-level meetings and mutual visits of leaders mean a step forward toward mutual recognition, which is a major gain in itself. With the establishment of diplomatic relations between South Korea and the USSR, relations between North Korea and Japan may develop startlingly. Both sides have also considered the normalization of relations. Currently 138

countries recognize South Korea, and **105 countries recognize North Korea** (as of December 1990). This includes 84 countries that recognize both sides. This situation is bound to affect the development of events in the Korean peninsula.

**5. Cambodia Question Heading Toward Political Solution.** Propelled by the UN Security Council and the ASEAN countries, startling advances have been made toward a political solution to the Cambodia question. A Supreme National Council made up of four parties in Cambodia has been established. Ultimate realization of a fair and equitable political solution to the Cambodia question will be very daunting. Unavoidably, there will be numerous controversies, frictions, and battles, and the possibility of repeated complications cannot be ruled out in the performance of a series of complex tasks, including bringing about a cease-fire and halting military aid to the four parties from various countries, the Cambodian Supreme National Council empowering an interim UN administrative organization sent to Cambodia to perform government functions and to assemble the forces of all factions under UN supervision at a certain point, and their subsequent complete disarmament or large reduction of armaments and the organization of a fair general election. Nevertheless, people are weary of the chaos and their minds are made up. This is the case both within Cambodia and internationally. The trend is toward a political solution, and the outcome is a foregone conclusion that will finally be realized during the next one or two years. Once the Cambodia problem is solved, relations among the countries of Southeast Asia, including relations among the ASEAN countries and those between the ASEAN countries and Vietnam, will undergo major changes. With the slogan, "change the battlefield to a marketplace," Thailand is now preparing for active investment in each of the countries of Indochina. Japan has also done a large of preparation to enter the Indochina market. It is waiting only for a political solution to be realized in Cambodia before entering on a large scale. Indochina may become a hot spot for investment in the Asian-Pacific region. At the same time, with the solution to conflicts in old areas, new disputes may come to the fore, disputes over maritime rights and interests becoming prominent (the Nansha [Spratly] Islands problem, for example), requiring careful and skillful handling.

**6. New Readjustments of China's Foreign Policy.** From a foundation of domestic political and economic stability, and while adhering to a peaceful foreign policy of maintenance of independence and retaining the initiative, China will meet current changes in the international situation. It will more realistically and more flexibly handle foreign relations and various international problems. During the year, China has made important diplomatic accomplishments, including establishment of diplomatic relations with Namibia and Saudi Arabia, reestablishment of diplomatic relations with Indonesia, and establishment of relations with Singapore. China's efforts in advancing a political solution to the Cambodia

problem won the plaudits of international society. In its handling of the Gulf crisis, China both maintained principle in opposing Iraqi aggression against Kuwait and demanding that Iraq withdraw its forces unconditionally from Kuwait at once, and also expressed the hope that the crisis might be peacefully resolved. This standpoint was widely applauded. China will continue to strengthen unity and cooperation with the Third World, will seek to improve relations with the United States, West European countries, and Japan, and will strive to normalize relations. China and the USSR made a giant step toward establishment of friendly and neighborly relations on the principle of peaceful coexistence. As the Cambodia problem nears solution, China is improving relations with Vietnam. China has also expressed a desire to contact and keep in touch with each of the four factions in Cambodia. China's all-points diplomacy, which adheres to principle and is also both concrete and flexible, exerts a major influence on changes in the Asian-Pacific structure.

### III

As a result of various important uncertainties, it is still difficult to make a concrete estimate of what changes will occur in the Asian-Pacific region during the 1990's. A preliminary forecast is made here on the basis of existing circumstances.

**1. The big triangle has evolved into a multilateral relationship.** For some time, the big triangular relationship among China, the United States, and the USSR has had an important effect on peace and stability in the Asian-Pacific region. With the relaxation in relations between the United States and the USSR, a dilution of this big triangular relationship has taken place. Its position and role have declined, but it has not entirely disappeared. This is because, although U.S.-Soviet relations contain an aspect of cooperation, they also contain an aspect of competition and contention. Although the USSR has sharply declined, its military power remains top-flight, and its economic potential should also not be underestimated. It is still a major adversary of the United States. Although China's economy is undeveloped, it is a large country with a population of 1.1 billion, which carries a lot of political weight. Until these objective factors change, the big triangle will not disappear. However, with the rise of Japan today and the gradual realization of its goal of becoming a major political power, relations among the big triangle are gradually evolving into a quadrilateral relationship among the United States, the USSR, China, and Japan. We might say the following: The role of the quadrilateral relationship among the United States, the USSR, China, and Japan is gradually surpassing that of the former big triangle. At the same time, the political strategy and economic position of the six nations of ASEAN in this region is becoming higher and higher, and their right to speak on Asian-Pacific matters is becoming ever greater. This has brought about a multilateral relationship. The change and development of this multilateral relationship has a major effect on the peace and stability of the Asian-Pacific region. The

correct handling of this multilateral relationship is of crucial importance to establishment of a new Asian-Pacific political and economic order.

**2. Asia's Socialist Countries Will Triumph Over Difficulties To Take the Road of Building Their Own Distinctive Kind of Socialism.** Unlike the socialist countries of East Europe, Asia's socialist countries take China as a model. The Communist Party of China gained the support of the broad masses of people and gained political power through long revolutionary struggle. It has a solid foundation among the masses. From the time of its founding, the People's Republic of China adhered to a foreign policy of maintaining independence and keeping the initiative in its own hands. Even during the Sino-Soviet alliance during the 1950's, China always decided all major issues, maintaining independence and keeping the initiative in its own hands. It resolutely opposed the interference and control of any major power. Although China also learned from the USSR's experiences, it realized fairly early on the shortcomings of the Stalinist model. Following the Third Plenary Session of the 11th party Central Committee in December 1978, in particular, China took economic construction as the key link in which it both adhered to socialism and systematically carried out economic and political system reform and opening to the outside world. In 1982, Deng Xiaoping proposed the building of a distinctively Chinese brand of socialism, meaning combining socialist theory with China's actual circumstances in a further break from the Stalinist model. China's reform and opening to the outside world have scored immense successes during the past 11 years. The economy has developed very greatly, and the people's standard of living has improved markedly. This is acknowledged the world over. The current improvement of the economic climate and rectification of the economic order has also proven successful. Inflation has been brought under control, the economy is rallying, and the domestic political situation is stable. China is drawing up both the Eighth Five-Year Plan and a 10-year program. During this period, the task of improving the economic environment and rectifying the economic order will be completed, and the economy will take a path of steady, sustained, and coordinated development. New major reforms and measures for opening to the outside world will appear one after another in gradual perfection of democracy and the legal system. History has demonstrated that China will be able to rely on its own strength to triumph over all difficulties and solve the complex problems it faces. Those who expect sharp changes in China such as took place in East Europe are doomed to disappointment. Of course, socialist countries made their appearance in the world only slightly more than 70 years ago. Socialism is still very young; it has not accumulated sufficient experience, so the occurrence of some setbacks is to be expected. However, to come to the conclusion on this basis that socialism has already failed is likely to be too rash.

**3. Conflict in the Asian-Pacific Region Can Probably Be Controlled and Important Advances Made in Disarmament and Arms Control.** With effort, conflicts in Cambodia and Afghanistan will be solved within a year or two. Of course, interfactional struggles will go on; however, warfare may not break out again, or else it will be limited to a very small sphere. Numerous territorial disputes still exist in the Asian-Pacific region, and there are racial conflicts and religious antagonisms as well. Examples are the struggle between India and Pakistan over Kashmir, the Sino-Indian border controversy, the dispute over the Nansha Islands... etc. In the Korean peninsula, in particular, a military confrontation exists. These antagonisms and conflicts will become more prominent under the new circumstances, and develop into new hot spots. They will damage peace and stability in Asia and the Pacific. However, a look at the present situation shows that, South Asia aside, the regional conflicts of the Asian-Pacific region can be controlled. The postwar Asian-Pacific region was one of the regions in which limited wars most frequently occurred. These wars included the Korean war, the Vietnam war, the Cambodian war, and the Afghanistan war, which were wars on a fairly large scale. The postwar Asian-Pacific region was also the region with the highest economic growth rate. Warfare seriously injures the economy, and the people suffer untold tribulations. Peace and stability are prerequisites for economic development. Some countries and territories that have not had wars, such as Japan, the "four small dragons" of Asia, and some ASEAN countries, have taken the opportunity to develop their economies very greatly. These strong comparisons provide a profound lesson. They give people a reason to hope that some of the antagonisms and conflicts in the Asian-Pacific region can be controlled through dialogue and negotiations, so that the region can have 10 years of all quiet on the eastern front.

Disarmament negotiations in the Asian-Pacific region will also doubtlessly produce major advances. With breakthroughs in U.S.-Soviet strategic arms reduction talks, a corresponding reduction of strategic nuclear forces will also take place in the Asian-Pacific region. With movement toward relaxation in the situation on the Korean peninsula, and the possibility of the signing of a peace treaty between the USSR and Japan, a gradual reduction in U.S. and Soviet ground forces will also occur. China has cut its armed forces by 1 million since 1985, and although China will continue efforts to modernize its national defense, this is entirely for defensive purposes. Moreover, because of the limitations imposed by economic strength, the degree of modernization of national defense that can be realized during the present century will be extremely limited. Japan possesses extremely great military potential, and it has steadily increased military expenditures in recent years. However, because of the limitations of various domestic and external factors, it is estimated that Japan will not develop into a major military power during this century. The difficult area in Asian-Pacific region disarmament is

the sea. The main U.S. military strength in the Asian-Pacific region is its Navy. The United States has regarded its Navy as a fundamental guarantee for safeguarding its overseas rights and interests, and for keeping the sea lanes open. It has never been willing to make it a part of negotiations. With the gradual withdrawal of U.S. ground forces from the Asian-Pacific region, the United States will place more emphasis on the development of its Navy and Air Force. The USSR's Pacific Ocean fleet is the most powerful of its four fleets. If the USSR can get through its current difficulties, it too will be bound to strengthen its Navy and Air Force in the Asian-Pacific region. Japan is striving to build a strong Navy and Air Force. Thus, it is estimated that future talks on naval cuts will not likely show progress. In this regard, the arms race will continue. For the foreseeable future, the Pacific Ocean will not become a truly pacific ocean.

The situation in the Asian-Pacific region is vastly more complex than the European situation. The main threat to European security comes from the confrontation of two large military blocs, including most of the countries of East Europe, but although it is true that military confrontation between the United States and the USSR threatens security in the Asian-Pacific region, there are other disputes and conflicts in numerous places. Obviously, it is difficult to solve them through a single negotiating agency, and most Asian and Pacific countries do not want to accept any major power's manipulation of Asian-Pacific affairs. Consequently, the building in this region of an Asian-Pacific security system on the European security model cannot be realized at least for many years to come. More realistic is for the United States and the USSR to hold talks on lowering the level of military confrontation in the Asian-Pacific region, the countries concerned in the Asian-Pacific region then holding talks on disputes over territory and maritime rights and interests, and establishing a dialogue mechanism. In the process of solving these problems, various forms of Asian-Pacific security mechanisms will gradually be discussed and reach fruition.

**4. Important Advances To Be Made in China's Peaceful Unification Efforts and in the Dialogue Between North and South in Korea.** Contacts on both sides of the Taiwan Strait have developed extremely rapidly since 1988. During the past two years, more than 1 million Taiwan residents have come to the mainland to see relatives and visit. In 1989, bilateral trade amounted to \$3.7 billion, and Taiwan traders invested \$1 billion in the mainland. Since 1990, both the number of Taiwan visitors and the amount of investment have greatly increased. The Gulf crisis and the Asian Games increased Taiwan residents' centripetal force toward unification of the motherland. Nevertheless, at the same time the Taiwan authorities have still not abandoned the policy of no contacts, no talks, and no compromise. So far, association between both sides of the strait has been largely one way. With increased economic exchange between both sides, and the retrocession of Hong Kong to the motherland during

the 1990's, three openings (of trade, of navigation, and of postal service) will come about. The "three nos" policy will be discarded. Bilateral talks of certain kinds may be held and accord may be reached on various problems in bilateral relations. This will lay a solid foundation for unification of both sides of the strait, and it will further limit the activities of Taiwan independence forces (so long as there is no unification, the danger of Taiwan independence will always exist). With a general trend toward relaxation on the Korean peninsula, a north-south dialogue may spur various important advances during the next several years. The military confrontation may relax and contacts between the two sides increase; however, there are various factors at work on the Korean peninsula that are difficult to predict, and forecasting concrete progress toward unification remains difficult.

**5. Asian-Pacific Region Speed of Economic Growth To Rank First in the World; Gradual Growth and Development in Regional Economic Cooperation.** Japan's economy still maintains a powerful development momentum. For the foreseeable future, the Japanese economy will remain first among developed Western countries. As a result of rising labor costs, currency value, and oil prices, the "four small dragons" of Asia are generally facing difficulties. Their economic growth rate has declined. However, they will still maintain moderate growth. Malaysia's and Thailand's economies have already taken off. By the end of the present century, these countries may enter the ranks of newly industrializing countries. The Indonesian, Philippine, and Vietnamese economies have also seen substantial growth. After China completes economic readjustment and a change of tracks during the first half of the 1990's, the economy of its coastal provinces may take off first, thereby giving impetus to the vast central and western regions of China, and giving new vitality to development of the Asian-Pacific economy. In an overall sense, the proportion and the position of the Asian-Pacific region in the world economy will continue to rise.

Strengthening of Asian-Pacific cooperation has become an inevitable trend in development of the Asian-Pacific economy. Since the 1960's, the Asian-Pacific region has become, in fact, an international division of labor system in which countries (or territories) at different levels of economic development compete to catch up and surpass each other in a benign cycle. In 1985, after the Japanese yen rose tremendously in value, Japan had to change its one set type economic structure in which it manufactured everything it needed from ordinary items used in daily life to high technology products, further transferring abroad labor-intensive and capital-intensive industry and opening up its own domestic markets. However, as a result of the relative contraction of the U.S. market, the "four small dragons" of Asia and the ASEAN countries had no choice but to find markets for their products in Japan. At the same time, because of the rise in value of its own currency, Japan also had to readjust its industrial structure and transfer investment and industries to areas such as ASEAN. The trend

toward economic blocs and the rise of international trade protectionism in the world are external factors impelling Asian-Pacific economic cooperation. Enhancement of Asian-Pacific economic cooperation helps development of the region's economy, and has broad prospects. However, because of the enormous size of the Asian-Pacific region, its extreme complexities, and the extremely uneven economic development between one country and another, plus the existence of different social systems and of numerous historical, economic, and geopolitical barriers and differences, for the foreseeable future, this cooperation will be unable to reach the current level of the European Common Market, much less its post-1992 level. For the next 10 years or more, it is very likely that Asian-Pacific cooperation will be carried out in many forms, at many levels, and through many channels. Despite the existence of fairly loose regionwide organizations for cooperation and coordination such as the Pacific Economic Cooperation Committee (PECC), Asia-Pacific Economic Cooperation (APEC), and more concrete economic cooperation of a secondary regional kind such as the already existing ASEAN, the South Pacific Forum, Australia and New Zealand, the tripartite (mainland, Taiwan, and Hong Kong-Macao) cooperation that is presently developing, as well as the proposed "economic cooperation around the Sea of Japan" (Japan, China, and South Korea), the "Yellow Sea Economic Sphere" (the west coast of South Korea and China's Liaodong Peninsula and Shandong Promontory), and the "Northeast Asia Economic Sphere" (Japan, South Korea, the maritime region of the USSR, northern China, and the northeastern China coastal region)... and so on, most consist of various forms of bilateral cooperation. Cooperation and coordination at these three levels will be mutually reinforcing and mutually advancing, and it will continue to grow and develop through practice.

#### IV

**The Problem of Building a New International Political Order in Consequence of Major Changes in the International Structure.** During the recent Gulf crisis, U.S. Secretary of State Baker several times referred to the need to build a post-cold war international political order. Prime Minister Kaifu of Japan also repeatedly raised the issue of building a new international political order.

However, the first one to raise the building of a new international political order was the Chinese leader Deng Xiaoping. Back in 1988, Deng Xiaoping proposed the building of a new international political order in the course of a chat with foreign guests. Deng Xiaoping also stressed that this new international political order should be founded on the five principles of peaceful coexistence. At that time Deng Xiaoping saw that very great changes had taken place in the polarization formed during the cold war: The two superpowers were now relatively weak. The role of a series of regional political and economic cooperation organizations such as western Europe, Japan, and Asia, Africa, and Latin America in



international affairs was becoming increasingly strong, and a multipolar pattern was taking shape in the world. Hegemonism was running up against a stonewall everywhere. The U.S. defeat in the war of aggression against Vietnam and the Soviet defeat in its war of aggression against Afghanistan showed that the use of military means to solve international disputes was becoming increasingly unworkable. Although the arms race continued, contests of overall national strength, largely in the scientific and technical, and the economic arenas was increasingly becoming the main form of confrontation internationally. The old days when one or two major powers dictated the world's fate are gone, and bloc politics is also difficult to continue. Under these circumstances, proposing the building of a new order in international politics is not only possible but necessary.

The question now is what kind of new international political order to build. Although the old international pattern and order founded on the Yalta system played a positive role in postwar world stability, in essence the two superpowers got their individual allies to form two large blocs for mutual confrontation and then vied with each other in power politics and bloc politics. The facts show such power politics and bloc politics to be passe. The new international political order founded on the five principles of peaceful coexistence advocated by Deng Xiaoping is a new form of international relationship that is characterized by the equality of large and small nations are equal, mutual respect for independence and sovereignty, and peaceful solution to international disputes. Such a new form of international relationships is consistent with the new main contemporary trends of peace and development. It can promote a harmonious political relationship between one country and another,

and between one continent and another. Were it not based on the five principles of peaceful coexistence, but rather on a new power politics and bloc politics to take the place of the old power politics and bloc politics, such as efforts to build a world jointly controlled by the United States, Japan, and Europe, or a U.S.-Japanese "joint leadership system" in the Asian-Pacific region, and so on, this would inevitably result in numerous new antagonisms and conflicts. It would be impossible to maintain long-term world stability.

Although the United States and the USSR divided up the Asian-Pacific region into spheres of influence at the Yalta conference, no military blocs similar to NATO and the Warsaw Pact were established after the war in the Asian-Pacific region. The Chinese revolution and the accompanying rise in national liberation movements in Asia threw the old order into confusion. The Korean war, the Vietnam war, and the Afghanistan war further greatly weakened the superpowers' influence and ability to control the Asian-Pacific region. The collapse of the old system was already under way, and a multipolar structure was already substantially in place in the region. This gave us reason to expect that this region would first cease to be a postwar area characterized by bloc politics and hegemonism for the building of a new international political order. Naturally, hegemonism will not willingly withdraw from the stage of history, nor will power politics as a historical phenomenon completely disappear within a short time. Elements of instability such as territorial disputes, racial antagonisms, religious conflicts, and terrorist activities, and so forth, will also continue to exist. The true building of a new international order still awaits the joint efforts of all peace-loving nations and peoples of the Asian-Pacific region.

### Liu Zaifu's Pluralism Roundly Criticized

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[Article by He Guorui (0149 0948 3843): "Monism or Pluralism—Criticism of Liu Zaifu's 'Pluralism'"; WENXUE PINGLUN is sponsored by the Literature Institute of the Chinese Academy of Sciences]

[Text] Following the Third Plenary Session of the 11th party Central Committee in 1978, the thorough purging of the disastrous consequences that the Great Cultural Revolution inflicted on the country and the people to bring ideological order out of chaos gave extremely great impetus to the development of theory. However, the following trend of thought emerged from the painfully evoked profound reflections of the whole people: A need to change perceptions and the fundamental way of dealing with objective matters. It was maintained that the development of theoretical learning and good performance in reforming all endeavors required a pluralistic mode of thought to take the place of the former monistic mode of thought. Pluralism had to be used in looking at everything and dealing with everything. It was also asserted categorically that since China is in the initial stage of socialism, the future development of the economy, emancipation of thinking, reform of culture, updating of ideas, and trend of advance must be plural. Only when diversities exist together can a modern society be fashioned. This trend of thought gained more and more impetus, peaking in the spring of 1989.

Liu Zaifu was a manipulator of this trend of thought. He might be said to have been the initiator of the general atmosphere, who was extremely deft in constantly calling loudly for a "fundamental reform of methodology" beginning in 1984 and 1985,<sup>1</sup> clearly calling for a change "from one to many."<sup>2</sup> By the spring of 1989, he made a more imposing appeal: "The Chinese must now have a new ideological realm. They cannot pin their hopes on an omnipotent and most beautiful monism. They have to create a situation in which diversities coexist and in which diversity is reconciled."<sup>3</sup>

This was a major issue of principle. It was raised in and challenged the theoretical field; it was clearly political. We positively could not treat it lightly.

#### I. The Objective World Is Unitary; The Marxist Monistic Theory of Origin Is the Theoretical Foundation That Guides Our Thinking

The so-called fundamental methodology issue is actually an issue of one's world view. Just which is consistent with the reality of the objective world and the reality of the history of human perception, the monistic theory of origin world view or the pluralistic world view?

The first question is whether the world is monistic or pluralistic? It is necessary to clarify, first of all, just what the term "yuan" [0337] [that is, unit] that appears in the

Chinese words for monistic [single unit] and pluralistic [multiple units] means. As a philosophical concept, the so-called yuan means source or inception. This may be looked at from two levels.

The first level is in terms of the world as a whole in which the so-called source or inception means the origin of the world, that is, the reason that the world became an orderly, unified foundation. "The Importance of Government [section of] Fan Lu [4907 7216] in the Spring and Autumn Annals" says: "The inceptor [i.e., the progenitor] was the source of all things." But was the source of all things one or multiple? The history of human understanding for several thousand years attests that there is only one material origin, that is, an objective reality that precedes people's awareness. It possesses a uniqueness that is dialectically unified with the diversity of things. "One" gives rise to "many," and "many" is always governed by "one."

The second level of meaning is in terms of individual things. The so-called source or inception means the material nature of things, and the basics of things, meaning the incipient contradictions, the primary contradictions, the core contradictions, and their dominant aspects, meaning the reason why a thing became that thing, and the unique determinants that separate it from other things. Actually, nothing is unitary, but is made up of multiple factors and elements. It is shaped by all sorts of relationships. The distinction between this thing and that thing exists only in their mutual relationship and their mutual roles. These various factors also create various contradictions, and the contradictions are colliding and moving incessantly. This creates an extremely great complexity and diversity of things. However, are things the aggregate of these sundry complex elements and diverse contradictions? No. All of man's true perceptions and all practice shows that all various factors positively do not exist in isolation and in a disorderly state, but instead exhibit an orderly and complete existence in their mutual roles. A certain contradiction, the dominant aspects of a certain contradiction, and a certain element play a decisively commanding role that is the thing's fundamental nature that dominates the totality and that is totally diverse. Everything is found to be a unity of the single and the diverse. In the process of a thing's development, the factors that play a decisive role change and shift positions. Thus, the original thing is bound to disintegrate and turn into something else. Take China's present society, for example, which is in the preliminary stage of socialism. In consequence, economically, it has a system of public ownership, a system of private ownership, and a system of joint public and private ownership. Politically, it has the Communist Party, and it also has democratic political parties and groups. Ideologically, it has collectivism and individualism, and it also has feudalism. Clearly, it exhibits diversity and complexity in all aspects. Nevertheless, this diversity and complexity positively cannot cover up its dominant nature. Public ownership, the Communist Party, and collectivism are the dominant components in

each individual realm. It is this that determines our society today. From its economic foundation to its superstructure, it is socialist and not any other form of society.

This shows that both the world as a whole and individual things are both singular and plural. They do not go "from one to many," but are a combination of one and many. One that is made up of many is manifested as many; the many are united in one and controlled by one. In terms of basic methodology, a theory of a plural world is entirely false. It cannot stand.

The second problem is whether people look at the world in terms of monism or pluralism. An overview of the history of human thought reveals the following fact that merits our attention: Except for unsystematized theoretical points of view, virtually every theoretical system, particularly philosophical systems are all at bottom monistic. This is because every theory has to have an orientation, and has to find a base point and a logical starting point in order to produce a system. Unless it has one, the theory can scarcely become a system, and it will definitely not be complete. If it is pluralistic, its understanding of objective things will be bound to be self-contradictory. China's Lao-tzu, who predates the Qin era [221-207 BC], used the "dao" [the way] as the base point and orientation point for his philosophical system. He believed that everything originated with the dao, that the dao was "the mother of creation."<sup>4</sup> Chuang-tzu used "qi" [life force] as the key logical category of his philosophy.<sup>5</sup> He said it was a "life-giving principle" that pervaded the world. In ancient Greece, the idealist Pythagoras believed that "numbers" were the basis for all things; it was numbers that enabled all things to form a harmonious and orderly state. Demokritos supported the materialist "atomic theory." He maintained that all things are composed of atoms, that atoms are forever in motion, and thus everything is in a constant state of development. The base point for Hegel's "aesthetics" system was an absolute rational concept. The history of philosophy may be said to be a history of contradictory conflict between materialist monism and idealist monism.

The history of philosophy has also had so-called "pluralism." Rene Descartes, for example, is considered to be the representative of pluralism. On the one hand he upheld "I think, therefore I am" to be the "first principle of philosophy." He maintained that "the complete essence or nature of ego is only thought. It... does not rely on any material thing." The reason that heaven, earth, light, and heat, as well as a myriad of other things "are real is that they are subordinate to my nature." It is also said that "the entire universe is only the same substance." Heaven and earth are made up of nothing but the same substance. "When I hear certain sounds, see the sun, and feel heat," these "come from things that exist outside of me."<sup>6</sup> As a result, his theoretical system created obvious contradictions. However, Descartes did not halt between these two dilemmas. He finally inclined toward objectively idealistic monism. He employed

"God" to reconcile the contradictions between the spirit and the material. He said, "All that we have comes from God."<sup>7</sup> Kant was likewise a "pluralist," except that ultimately he inclined toward subjective idealism.

One may ask, cannot one understand things from many angles, many sides, and many levels? Yes, one can, and one should. This is because, as was said above, everything (including literature) is made up of many different factors (elements, ingredients), and limited by many different conditions, thereby providing the possibility of people understanding them from different angles, different levels, and different positions. Furthermore, because the individual needs, interests, and goals of the perceivers vary, and because their value concepts vary and their environment and conditions vary, their subjective angle of approach will vary, and their orientation will vary. Therefore, people have different understandings of the same things. This is consistent with the pattern.

Nevertheless, these diverse perceptions are not the same thing as pluralism. When diverse perceptions carry certain blind prejudices, not only does that not help, but it hurts true understanding of the object. Only when diverse perceptions are based on definite facts and derive from serious inquiry can they help in the understanding of all aspects of the object. Even so, unless the essentials of the object—the guiding principles of the thing's network system—are grasped, it will be impossible ever to master this "network" of the object. Diverse understanding (multidimensional thoughts) can discover, at most, more "linkages," and may be "profound in a one-sided way." However, if the guidance of true monism is lacking, that is, unless a synthesis of multiple perceptions is sought from a higher point of view, linkages may substitute for guiding principles. One may adhere to a single point of view, seeing only a beard and eyebrows one's whole life long without ever seeing a whole person. Conversely, if one can grasp the key elements first and use scientific monism as a guide, then usually "everything falls into place," twice the results achieved with half the effort, a more complete and more accurate understanding of a thing gained.

Multidimensional thinking (that is, pluralism) that rejects monism can only proceed toward relativism, which causes people to sink into a morass of different conflicting parties, each insisting that it is right. One can clearly see from this that pluralism is not consistent with the reality by which mankind's understanding of truth developed.

The foregoing analysis demonstrates that, no matter whether looked at in terms of the subject doing the perceiving or the object being perceived, pluralism is unfounded and mistaken. It is bound only to lead people's understanding astray.

In the foregoing, we discussed in terms of general philosophical principles why pluralism is fundamentally untenable. Now we will specifically analyze the reasons



for the advocacy of pluralism by Liu Zaifu, et al. Liu Zaifu maintains that there is no such thing as "omnipotent and perfect monad," therefore, there can only be "diversities existing at the same time." Another theoretician expressed this idea more directly. He said, "Any scientific theory has its space-time realm and its limitations. This is likewise true of Marxism. It is not equally valid everywhere, nor is it correct from beginning to end." In the area of academic study, no scientific theory has any special right to place itself above any other scientific theory, and the same is true of Marxism. Thus, Marxism is simply one school among many; it is a single element among plural elements; it holds an equal position and equal rights with other sciences.

This is plausible, and it seems reasonable. Indeed, every science has its limits; no science is omnipotent and perfect. Every theory is destined to have such limitations in its stance. This is because a stance results in a widening between theory and the constantly changing world, placing it in a contradiction between the static and the dynamic. In this regard, Engels made the penetrating observation that "every ideational image in a world system is limited by historical circumstances. It is limited subjectively by the physical and mental state of the person from whom the ideational image comes."<sup>8</sup> It was also in this sense that Goethe said that the tree of life is evergreen, but theory is always gray. However, if we examine the value of all scientific theories and their role in life, to stop here is certainly not to go far enough. That amounts virtually to not saying anything. This produces the following conclusion: Consequently, people cannot assign a relative importance to the theories in real life or in academic study. They have to make them all equal with equal rights, practicing pluralism. That is even more like saying that since everyone has to die, what is the use of fussing about the length or the value of their lives, etc., etc.

Differences in level exist in the space-time fields in which various theories are applied. This is determined by the correctness or error and the relative superiority or inferiority of the stance (the high point in the strategic system of a body of theory). It depends on what methodology they are able to provide to reflect the depth and breadth of the objective world. It is on this point that one may assert categorically that Marxism is superior to all other existing theoretical systems. Marxism's monism—the dialectical method and historical materialism—have been proven correct in practice everywhere in the world right up to contemporary times. No matter what subject in world view, macroview or microview or fuzzy view that people perceive, whether in the boundless natural universe or in complex social life, the dialectical method and historical materialism can explain it. This is because the originators of the dialectic method and historical materialism were grounded in the standpoint of the most selfless working class. They both criticized and continued all of mankind's outstanding intellectual achievements, and also conducted through broad and pervasive

social historical practice a most universal and supreme capsulization of the fundamental laws of the objective world.

Thus, Marxism most certainly is not one among many. It is positively not on an equal footing with other theories, but rather has a relationship with them of the guide and the guided, of a great truth and lesser truths, and of lesser truths that enrich and verify a greater truth.

## **II. The Marxist Theory of Reflection Encompasses the Origins of All Science and All Literary Works; No Subjectivity Can Escape the Purview of Its Laws**

In his advocacy of pluralism, the specific thing that Liu Zaifu refutes is the theory of reflection. He believes that to use only the monism of reflection theory to study literature "does not suffice."<sup>9</sup> "One must also examine literature from the angles of esthetics, psychology, ethics, anthropology, and the study of spiritual phenomena."<sup>10</sup> As a basic methodology, is reflection theory effective and sufficient for studying the origins of literature?

What is Marxist reflection theory? Virtually all who oppose it (including Liu Zaifu) do not really understand it. In the addendum to the second edition of Volume 1 of *Das Kapital*, Marx said, "Conceptual things are nothing more than material things that enter people's brains and are transformed in people's brains."<sup>11</sup> This is the most scientific classical definition of reflection theory. This ontologically epitomizes a truthful law: Between spirit and material, it is material that is primary, and the spirit that is secondary. The material always plays a decisive role. All human concepts, consciousness, ideas, and theories—that is, all human psychological phenomena and spiritual products—are an outgrowth of the role of objective materials on people's sensory organs.

May I ask where esthetics, psychology, ethics, and so on, come from? Do they fall from the sky? Are they spontaneous outgrowths of the "inner universe"? Take psychology, for example. In recent years, very great achievements have been made in the application of psychology to the study of literature and art, and serious problems have also arisen, which I will not go into here. Let me just remind that psychology itself also has a basic methodology problem. Can reflection theory solve psychology's problems? Liu Zaifu maintains that it cannot. In his view, psychology and reflection theory are unrelated. Because it was guided by Marxist reflection theory, Liu Zaifu said that *The Psychology of Literature and Art Creation* by the Soviet Union's Waliaokefu "is actually reflection theory, not psychology."<sup>12</sup> He set the two in opposition to each other. Liu Zaifu also said directly that "reflection theory can only resolve a person's understandings; it cannot resolve the trend of a person's value choices and emotional will."<sup>13</sup> What is the actual case? In the view of some bourgeois scholars, a person's value choices, emotions, and will are expressions of instinctive animal desires and primitive vitality. Naturally, they maintain that reflection theory cannot solve these problems. Nevertheless, objective laws do not change into

something that cannot be fathomed because of the attitude toward them. Both the study of value choices and psychology are encompassed within reflection theory. Why did Liu Zaifu want to take part in a seminar held abroad by some mainland renegade authors to commemorate the so-called "4 June" murder case? Why did he want to express a tendency toward such feelings and will? Can it be that this was decided by an "internal universe" he was born with?

Let us take the subconscious as an example. This is a most complex and most abstruse psychological phenomenon that Liu Zaifu and Li Zehou [2621 3419 0624] deem plays the main role in literary and artistic creativity.<sup>14</sup> Freud was the first to do a large amount of study of the subconscious, and he made a contribution. However, his fundamental error was in attributing the source of the subconscious to sexual instinct impulses and their repression. This obviously made the problem a physiological and biological one. This is completely unable to stand the test of reality.

The subconscious can be scientifically explained only on the basis of Marxist reflection theory. The subconscious, like the conscious, is a reflection of objective things. It is an outgrowth of the functioning of an external stimulus on sensory organs and the cerebrum. It differs from the conscious in that it is a kind of directly felt, internally experienced, mental activity that is not controlled by the subject's conscious and is not clearly understood by the subject. People's interaction with an environment is virtually always as follows: It varies according to time and place. Under each specific circumstance, there is always a different center of attention. This center of attention may be formed by the subject's current pressing needs or by the strong stimulus of the object (or certain aspects or attributes of the object). However, the subject still reacts to things whose actions can affect him; he does not become completely oblivious to other outside information because of his concentration of attention, or because he becomes deaf, blind, or a stone. It is simply that he is in a state of looking without seeing, listening without hearing, and touching without feeling, i.e., the subject has only a direct sensory impression, but is not in an explicit state of expression. Such information that is seen, heard, and felt without looking, listening, or touching is not actively obtained by the subject but rather is passively accepted. It is stored in people's cerebrum, where it forms the most primitive and most plentiful element of the subconscious. Yet another aspect of the subconscious is the slow transformation and formation of myriad conscious feelings, that is, what is meant by a habit becoming natural: Something that is highly conscious later being internalized to become spontaneous and unconscious. As material for subconscious thought, these two stem from the objective. These two elements alone cannot form the subconscious. These two elements may be called the subconscious only after they are connected through mental logic and a mental process to produce a certain purpose and meaning. Furthermore, the "operation" of this mental logic and

mental process is always unconscious. It cannot be controlled by the will. It shows up specifically in the form of dreams, or inspiration, or in talking to oneself when mentally confused, or in words and actions during a hypnotic state. What is the source of this unconscious, unwilled thought? On the one hand, this stems from the rational logic and the thought patterns that the subject has used after they thoroughly mature and are transformed in the mind, seemingly becoming instincts. On the other hand, it is an expression of a long-unsatisfied need in the real life of the subject or of a long-unrealized goal that has been pursued. Such needs and pursuits stimulate the action of habitual thoughts and procedures in an unconscious state, thereby shaping the content (intentions and interests) of the subconscious. Facts show that these two aspects do not originate in the objective real-life practice of the subject. Liu Zaifu's insistence on counterpoising psychology and reflection theory shows that he does not understand reflection theory, and that he does not understand psychology either.

This shows clearly that, in the final analysis, the psychological method of studying literature is also limited by the reflection theory's dialectical method. The same is also true for various other methods.

No matter the countless forms of literary works, they all have only a single source, namely objective reality. The literary and artistic works of every place in the world from ancient times to the present can be put into the following three main categories. The first is writing of a realistic kind, that is, so-called realistic or naturalistic works. The second is ideational, that is, the so-called romantic and symbolic works. The third is the whimsical [1748 1564] type, that is, the so-called formalistic and abstract works. When carefully studied, all are reflections of objective reality. The meaning of realistic and ideational is fairly clear. Nothing more needs be said. Here we will talk mostly about whimsical works. Are such works, in which the organization of form is dominant or in which there is virtually nothing but an ingenious organization of form, a reflection of objective reality as well? Take some works of abstract art, for example, that are created from the different structures of points, lines, dimensions, or colors. They do not portray objective things, and it is also very difficult to say that they demonstrate any clear purpose. But even so, in the final analysis, they are still outgrowths of the objective world reflected in the brain of the artist. It is just that the creator has made a highly abstract representation of the things sensed. Without material form and structure, color, and motion, the abstract artistic elements of points, lines, dimensions, and colors cannot be generated.

Listen to "the master's self-disclosures" of an ancient Chinese artist. In the history of the Western Han dynasty, the calligrapher Cai Yong (AD 133-192) said: "Literary style must be looked at in terms of its form. Only when there are representations of sitting and walking, flying and moving, coming and going, lying

down and rising up, sadness and joy, insects eating leaves, both sharp swords and long spears, strong bows and hard arrows, water and fire, clouds and mists, the sun and the moon, can writing be termed literature."<sup>15</sup> Ouyang Xun, one of the four great calligraphers of the Tang dynasty, drew every dot in his calligraphy to compare with nature. We certainly do not want to misunderstand these two calligraphers, supposing that they advocated that calligraphy should imitate the real world. Their central idea was nothing more than to say that the motion of the brush, the structure, and the vigor of execution of calligraphy stem from a dynamic sense of an object in time and space.

Let us now hear the explanation that a modern West European abstractionist provides. The illustrious Vasily Kandinski (1866-1944) said, "This abstract art does not rule out a relationship with nature... Abstract art departs from the 'epidermis' of nature, but it does not depart from its laws or, shall I say, universal laws. The various stimulations that abstract artists receive from it are not from a piece of nature, but from all of nature and from all of its diverse manifestations. All this builds up in his heart and leads to a work." Paul Klee (1879-1940), who belonged to the "Der Blaue Reiter School," also clearly maintained that "art does not value the visible, but it creates the visible. The elements of black and white painting are points, lines, dimensions, and spatial ability... the basis for all growth is movement." And what is the source of these elements and this movement? He believed that all of it stemmed from objective natural things. "On nature's creative road, this mobility is a very good modeling school, is it not? By further examining the relatively small under a microscope, various forms may appear. Were we to encounter these forms somewhere completely by chance, we might consider them to be an illusion or strange." Here, his conclusion was: "the foundation of creativity," and "the key that unlocks everything" is hidden in "the bosom of nature." "Our beating hearts impel us to explore deeply to this foundation." Neither of these two abstract school painters were believers in Marxist reflection theory literature and art, but they seem to have had the artist's honest attitude; thus, discussion of their experiences and theories happen to demonstrate the accuracy of reflection theory.

Clearly, in the study of literature and art, or in the study of any other sensory phenomenon, reflection theory will always prove useful and positively is not "insufficient."

Actually, neither did Liu Zaifu dwell on whether reflection theory was "insufficient or not." Mostly he wanted to negate reflection theory. He termed reflection theory "linear thinking," and "direct sensual perception reflection theory";<sup>16</sup> "it is only a mechanical determinism for understanding reality and for understanding literature from the object and the direct perception mode."<sup>17</sup> He said that for a long time (he dated it back to the 1930's), China has used reflection theory as a guide and as a "foundation for thought." As a result, "a tendency to make the object absolute occurred in our literature, art,

and science." Persons as subjects were "entirely controlled by the objects," with "a general loss of subjective character occurring."<sup>18</sup>

If one says that Liu Zaifu's foregoing remarks apply only to the period since liberation or to the period since the 1930's that he mentioned, and that some comrades have blundered in understanding and applying Marxist reflection theory (the most important blunder being to equate reflection theory with the theory of knowledge, regarding people's reflection of objective things, including the reflection of authors and artists, as being mostly or only a kind of knowledge to be understood and applied in the quest for an object's characteristic attributes, innate character, and regular patterns), then there is still a certain amount of sense in this. The key is that he not only completely negates the accomplishments made in the country's revolutionary literature and socialist literature since the 1930's under guidance of Marxist reflection theory, as well as generation after generation of fine authors who have been brought up, but he also fundamentally negates and launches an unbridled attack against Marxist reflection theory itself. He does not limit himself to the blunders of some comrades, but rather capitalizes on these blunders. He said very clearly: "The problem is that we cannot solidify and warp the realistic literature theory that is built on the historical rationale and the theoretical rationale of reflection theory philosophy. It is necessary to update step by step as human cultural concepts evolve, paying attention to the various changes that occur with each passing day in contemporary literature in China and abroad, rectifying historical biases and insufficiencies."<sup>19</sup> His meaning is very clear: Marxist reflection theory philosophy and the literary theories built on it have only a historical rationale, and are suited only to the past. They are no longer suited to the present. Thus, he wants to propose subjectivity as a means of correction, substituting their subjective theory for Marxist reflection theory.

Marxism has always paid a great deal of attention to the subjectivity issue, and has provided a scientific explanation. Marxist reflection theory reveals that the spiritual is secondary, that it is determined by the material but that it does not equate with the material. A spiritual product is an outgrowth of a material thing being transformed in the perceiver's brain. Such a transformation results from highly valuing and fully affirming subjectivity. This transformation has two forms. One is a perceptual transformation. This product of the spirit has as its goal the discovery and understanding of the inherent characteristics, attributes, essence, and patterns of objective things. The other is a creative transformation. This product of the spirit has as its goal the invention and creation of things that do not naturally occur in objective reality. We distinguish these two transformations as products of the spirit of a discovery nature and an inventive nature. We are following the laws that man produces in accordance with "two different yardsticks" that Marx revealed. In his *1844 Economic Philosophy Holograph*, Marx said the following in

comparing mankind and animals in maintaining their separate vital activities: Man understands how to carry on production in accordance with any kind of yardstick, and he understands how to apply inherent yardsticks to an object in all cases.<sup>20</sup> All human production is uniformly carried on according to two yardsticks, but specific production always emphasizes a certain yardstick. A production spirit of a discovery nature employs primarily objective things as yardsticks (characteristics, nature, and patterns), while a production spirit of an inventive nature uses the yardsticks inherent in the subject (needs, goals, feelings, and will) primarily. Scientific reflection is of the former kind. The scientific transformation of a material thing is manifested in the subject's dissection of the object, accepting or rejecting as he goes along. The conceptions, concepts, and theories of any science reflect only part and one aspect of the object studied. What science reflects positively cannot be in conflict with the object. Therefore, Engels said that our theoretical thinking positively cannot do the following stupid thing: "Treat a shoe brush as though it were a mammal." Even were one to do so, the shoe brush "positively would not develop mammary glands in consequence."<sup>21</sup> Art and literature are of the latter kind. In literature and art, the transformation of material things need not follow the realities of the physical world. They "are not limited by material laws. They may, at will, link up things that are separate in the natural world, and they may also separate things that are linked."<sup>22</sup> Literature and the arts can do incongruous things that science cannot do, fashioning characters like the monkey king and the reincarnated spirit of a pig in human form named Zhu Bajie as in the novel *Monkey*, or like foxes who can transform themselves into enchantresses, the white snake maiden who married a mortal man, the sphinx, and mermaids. These are not only not incongruities, but are eternally fascinating things of interest and wonder.<sup>23</sup>

Liu Zaifu completely disregards reality, and he basically fails to understand Marxist reflection theory and literature and art theory. He insists on equating them with reality, then leveling all sorts of blame and "indictments":

1. Emphasis only on the reflected "objective being while neglecting the operation of a dynamically reflecting perceiver [ganshouti 1949 0649 7555] on an objective entity."<sup>24</sup> In his *Talks at the Yanan Forum on Literature and Art*, while stressing that life is a fountainhead for creativity, Mao Zedong repeatedly noted explicitly that "every animate form of life" is simply a "primitive material"; it is a "crude thing" that can enter the creative process only through observation, personal experience, study, and analysis by the artist to become the "object of labor." Only after going through "creative labor" can it become a work of art. Does this "neglect the operation of a dynamically reflecting perceiver on the objective entity" and ignore the subjective nature of the artist?

2. "It does not solve the problem of realizing dynamically reflected multidirectional possibilities."<sup>25</sup> Solving

the problem of a multidirectional reflection on reality, possibility thereby being transformed into reality is a task that writers and artists complete in creative practice. In theoretical terms, literature and art theory in Marxist reflection theory strongly emphasizes this point. While emphasizing party character principles in literature, Lenin, whom Wang Ruoshui [3769 5387 3055] has attacked for mechanical reflection theory, said in a tone that brooked no dispute that, "without doubt, literary endeavors are least amenable to mechanical evening out, standardizing, and the minority being subordinate to the majority. Without doubt, in such endeavors it is absolutely necessary to ensure individual creativity and the vast world that an individual loves, and the vast world of ideas and illusions, and of form and substance. All this is without doubt."<sup>26</sup> Three "without doubts" in a row to emphasize the diversity that literary aesthetics reflect must be enough, are they not? However, Liu Zaifu screams, ostrichlike: "It has not been solved; it has not been solved." Furthermore, he further finds fault with literary theory in the USSR under the direction of Lenin's thinking following the October Revolution as "limiting writers' principal activity to only the level of political ideology, while they frequently were powerless at the aesthetic level."<sup>27</sup> How is one to judge such an extremely unserious attitude and method of discussing a serious theory?

### III. The Preaching of Pluralism Theory Is for the Purpose of Substituting the Bourgeois Monism Theory for the Marxist Monism Theory

Liu Zaifu's preaching of the "pluralism theory," is actually suffused with theoretical dishonesty. He frequently speaks plausibly and at length about "coexistence of plurals," and the "reconciliation of plurals." In his treatises, he also seems to offer various proofs: "Man has only two natures: One is passive; the other dynamic."<sup>28</sup> Human nature has a "dual intension."<sup>29</sup> On the one hand, it is a reflector of the perceived, and on the other hand it is a reflector of the perceiver.<sup>30</sup> A person's temperament "is made up of positive and negative poles." It is both physical and spiritual, benevolent and malevolent, sublime and ridiculous,<sup>31</sup> etc. This has resulted in some of our comrades regarding him as a "pluralist." Actually, intentionally or unintentionally, admittedly or unadmittedly, Liu Zaifu's publicizing of "plurality" and "duality" is subjectively nothing more than a theoretical scam and a front. Possibly it is a tactic that the dialectic method has forced out. The first effect that such a tactical publicizing seeks to produce is a wavering in people's belief in Marxism, causing them to feel that Marxism is nothing more than just another of the various Western isms, that they should not pin their hopes on a monism that is not omnipotent, and that they should no longer use it as a basis for guiding thought and theory. As for Liu Zaifu's theory, it is out-and-out monism to the core: the monistic bourgeois world view, historical view, outlook on life, and outlook on literature.



1. Outlook on literature. Liu Zaifu said: "The most fundamental primary motive force for literature is feeling." He also said that "the most outstanding contribution of 20th century primary Western literary theory is its discovery of this original motive force."<sup>32</sup> It is both a "primary" motive force, and a "fundamental" one, and it is also the "most" fundamental, so naturally it is second to none. Liu Zaifu summarizes this primary motive force feeling as love. He maintains that the self-realization of an author's subjective being "develops out of love." This love is "linked to the joys and sorrows, partings and reunions of all people." "It is unbounded," "it transcends self, blood relationships, race, and national boundaries." Naturally, it also transcends class. He called upon every poet and writer worth his or her salt to "pursue" this "god" of love.

In 1988 I wrote a refutation: If this love, this "god," has such extraordinary power and such intelligence, why does Liu Zaifu not love Lin Biao and the "gang of four"?<sup>33</sup> Now I would like to add something here: Did Liu Zaifu's love transcend everything during the 1989 disturbances? In just what direction did his "god" instruct him to lean? That he took no action made it difficult for his "god" to reply. Therefore, his so-called "most fundamental primary motive force" is no such thing at all. Behind it is a force that controls it, and to find this force, one must rely on the dialectic method of reflection theory.

We do not deny that feeling plays a motivating role in literary and artistic creation; but it is positively not a primary motive force just as class struggle in a class society is not a primary motive force. For both mankind as a whole and for individual writers, feelings are an outgrowth of the interaction of the perceiver and the environment. They are an outgrowth of a person's real life. More than 100 years ago, in the book *Human and Animal Expression*, Darwin described the origins of human expression. In trapping and hunting and in warfare, man's forebears frequently aroused feelings of anger to help capture or hunt wild animals and to triumph over enemies. Faced with dangers, they experienced feelings of fear in order to avoid the dangers and flee at once.<sup>34</sup> Therefore, even quite a few contemporary Western psychologists such as Arnold and La-zha-le-si [2139 2089 0519 0631] believe that emotions (feelings) are stimulated by objective conditions and generated after an evaluation of them. They are based on the stimulus of environmental information.<sup>35</sup> Why was the poet Qu Yuan stimulated by feelings of "bitterness" and "resentment" to write *Li Sao*? This was determined largely by his particular experiences with the Kingdom of Chu and the ruling house of the Kingdom of Chu (his efforts to find favor with the kingdom's ministers only to encounter slander and condemnation). What was it that Guy de Maupassant frequently portrayed abandoned children and illegitimate children in a mournful way, 32 of his works employing such sad themes? This was because, as a child, his mother and father frequently quarreled. They finally separated, which caused him

much grief. Therefore, the contention that "feelings are the most fundamental motivating force in literature" is nothing but a bowdlerization of the world view of Christian mythology during the Middle Ages in Europe that "God is the primary motivating force in the world."

2. Historical View—Outlook on Life. Liu Zaifu maintains that sexual desire is "the foundation of human life." He wrote: "If one says that human nature is a pursuit system, then sexual desire is the physiological and psychological motive force for this pursuit system."<sup>36</sup> This, one might say, is an exposition of the quintessence of Liu Zaifu's outlook on life and historical view. What is human life? It is pursuit of the satisfaction of sexual desire. What is history? It is an activity system conducted to satisfy sexual desire. History is rooted in this physiological and psychological lust. Such an utterly exquisite view of life and view of history!

Liu Zaifu also maintains that sexual desire and the desire for food (the subconscious) are the foundation of all passion.<sup>37</sup> Thus, the ultimate pursuit of human life is indulgence in and satisfaction of the appetite for food and sex. He said that, according to the traditional view, "the more a person sublimates from a low level of sexual desire to a high level of sexual desire, that is, the more a person's unconscious latent energies willingly accept socially acknowledged norms, the more noble this person, and the more beautiful his or her nature and feelings." However, the modern view is contrary to this. It maintains that "sexual passion is beautiful." It "strives for free expression, but reason and various social customs limit this impulse from one's innermost being, extinguishing the fires of individuality."<sup>38</sup> If one says that Liu was still somewhat equivocal at this time (about 1985) about giving free reign to sexual passion, the thrust of another book that he wrote in 1987 was vastly different. Probably in extremely high spirits under impetus from some warming of his subjective nature, he openly preached individualism. He said that, in the traditional view, each person is riveted to a point in the "social network," which "turns a person into a nonperson."<sup>39</sup> It is necessary to "make the individual the starting point in everything."<sup>40</sup> The individual is "self-sufficient and self-disciplined." "The individual is ultimately responsible to himself or herself, and not responsible to others or to outside forces." There is no god or saint in the world; there is only oneself. He called for people to "be above the common run," "always resist 'popular conventions,'" and be "a person in opposition to the 'commonplace.'" He believed this to be "true individualism." The value of human life lay in this, and "boundless creativity of spirit also stemmed from this."<sup>41</sup>

Is a person "self-sufficient and self-disciplined," "a free point" that can do as he or she pleases? Can a person really be free of social network restraints to seek "self-realization," to become a superman? Can the individual be the starting point for everything?

Man is a product of his environment and he is simultaneously the transformer of his environment. Man's fundamental and primary conflict is the conflict with his environment. Actually, man and the animals have a physiological need for food and sex, i.e., to maintain their own bodies and produce progeny. However, the fundamental difference between man and animals is that man relies on productive labor to transform his environment in order to satisfy his own needs, and it is this and only this that has enabled man to rise above the animals. In this regard, Marx was the first to reveal that a special characteristic of man as a species lies in an abstract way in his "free, conscious activity," i.e., labor.<sup>42</sup> Later, Marx discovered that "all production is performed by individuals within a certain social framework."<sup>43</sup> Thus, he more profoundly revealed that a person's innate character is, in a realistic sense, "the sum total of all social relationships."<sup>44</sup> This scientific discovery of the objective laws of the life and history of development of mankind tells us the following:

First, the premise that a person is "self-sufficient and self-disciplined" is unscientific. Nothing in the universe is self-sufficient and self-disciplined; it is bound to be at a coordinate point in space and time, i.e., at the point of confluence of a specific natural geographical environment and a certain specific sociohistorical condition. Naturally, this fixed point is not a fixed point in a geometric sense, but rather a shifting point in the orbit of human life.

Possibly one may say that Liu Zaifu's "self-sufficiency and self-discipline," and his "freedom" are in terms of a person's spiritual world and "inner universe." That is indeed the case, but does that make it right? The "quintessence" of Liu Zaifu's "subjectivity theory" is in the "inner universe" concept. He believes that the "inner universe" is "boundless," "independent," and a "mysterious world."<sup>45</sup> However, it might well be asked whether this "inner universe" (spiritual consciousness) can be independent of the human cerebrum and sense organs? Can the raw material (impressions and ideas), the content, the modes, and the capability for conscious (and even subconscious) thought be separate from the objective things that stimulate the sense organs and mankind's production practice that transforms the environment? It goes without saying that primitive man had no concept of "biological genes," and, even in today's world, the number of people in the "inner universe" without any idea of the "trachoma virus" are legion. People who lived in mountain caves certainly did not possess the ideas of mathematical logic of people today, nor can we ever again labor under the illusion of the ancient Greeks that spirits inhabited everything in real life. Jin Huidi, the second emperor [AD 290-306] of the Western Jin dynasty, "freely" wondered why his starving subjects did not eat meat stew, but certainly never "boundlessly" imagined that they might eat tree bark, grassroots, and mud, etc. Just how "boundless" and how high is the "degree of freedom" in the "inner universe" as shown in these examples?

Thus, we may say categorically that a person who is not in a specific "social network," and a person who is not controlled by a certain time and space is like a person without a belly button. He does not exist. No such person existed in the past, exists today, or will exist in the future. Liu Zaifu has repeatedly stressed his reason for proposing the principles of subjectivity as "opposition to theocracy."<sup>46</sup> What he fails to realize is that the core of his own subjective principle, namely "freedom" and "self-sufficiency and self-discipline" is theology under a different name.

Second, the premise that "the individual is the starting point for everything" is anti-progress. Marx said "society is made up of individual producers; thus, for these individuals production of a definite social character is naturally the starting point."<sup>47</sup> What Marx was talking about here was the scientific method, and it was also the historical point of view and the view of human life. As was said earlier, man's conflict with nature is human life. The first conflict in human history, namely the creation and development of productivity, steadily increasing the level of production to satisfy people's ever increasing needs, became the nucleus of human life and the key to historical progress. The value of an individual also depends ultimately on what role he plays, and how much he does to advance the development of production.

On the one hand, speaking in terms of objective laws, the individual positively cannot exist apart from society. This is because a person can only become a person through production, and only when people band together in a definite relationship can any production be carried out. Therefore, Marx said, "man is the most social animal in fact as well as in name. Not only is he a gregarious animal, but only in society can he be an independent animal."<sup>48</sup> Thus, the "need for self-organization and self-realization" in the course of an individual's life, and the need "to be emancipated from external forces," and "from the tragic fate of being regulated, limited, restrained, and repressed"<sup>49</sup> that Liu Zaifu preaches is nothing more than tearing out his own hair in a desire to leave the world. Not just an author's clothing, food, abode, and travel, but his pen, ink, paper, and the printing and publication of his works are inextricably related to society. Furthermore, can he be "self-sufficient and self-disciplined," "organize himself and realize himself" as regards the content of his thoughts, his implements and methods, as well as the aesthetic judgments accorded his works? Can the "spiritual individuality" of capitalists who want to become very rich very fast be "self-realized" independent of blue-collar workers, white-collar workers, delivery personnel, and merchants?

On the other hand, in terms of subjective value orientation, individualism plays a negative role in social progress and historical advance. Historically, every great individual always conformed to and gave impetus to the tide of advance, worked together with the masses, or became their leader, spokesman, or sympathizer. This was the case in the history of literature with Qu Yuan,

Du Fu, Li Bai, Guan Hanqing, Shi Naiyan, Zao Xueqin, Aeschylus, Dante, Goethe, Victor Hugo, and Leo Tolstoy. In the socialist world of today, however, Liu Zaifu surprisingly preaches "everything beginning with the individual," "being responsible only to oneself." In so doing, he places the individual and the mass of people in a confrontational position. He suggests that the mass of people are of a "common run" and a "common herd," and he regards them as a group without a "spiritual identity" who must "seek a new design for people" from their elite in order to "transform the spiritual quality of man and remold the soul of the citizenry."<sup>50</sup> In such preachments, Liu Zaifu is slapping his own face. This is because, when espousing the subjectivity theory and "true individualism," he said the following: "Once he is born into the world, every individual has value as an independent personality."<sup>51</sup> Consequently, he said every individual should be respected. This so-called value as a personality that one is born with is probably the basis for Liu Zaifu's so-called foundation of human life—the desire for and function of food and sex. However, if this is the case, how did the "common herd" lose its value as personalities, and why is there a distinction between the supermen who are "above the masses," and the nonpersons who have lost their subjective value. Such preaching about "true individualism" is a corrosive in society that is particularly damaging to young people. It causes them to be supercilious, to disregard the collective, to disdain all authority, to discredit all traditions, to oppose all that is rational, and to become megalomaniacs, everything centering around "me." This is bound to entice them to become hedonists, is it not? The world of literature and art has given rise to many fallacies of the following kinds: Some people preach that "sexual desire is beautiful," so literary works "must express these wild feelings." Others want to make a reverse verdict in which "lasciviousness is the root of all evil." They maintain that only by so believing can our nation make "true progress." Some people say that "what is between one's two legs is the root of being." "Relations between the two sexes is the supreme form of existence of human activity." They say bitterly: "Since time immemorial, all sorts of restraints have existed in mankind's sexual life, which has been severely repressed by ethics and morality." They loudly shout, "Without emancipation of sexual consciousness, all emancipation is incomplete." Numerous salacious works appear under the pretext of concern for man and respect for the humanity of man. Much shameful behavior is touted as being the way modern people act! Treating human life lightly, treating literature lightly, treating women lightly, and treating men lightly has become the fashion for some people.

In a fundamental sense, individualism and collectivism are completely incompatible and antithetical views of life and value concepts. The history of all human civilization instructs us that the value and the significance of human life lies in whether a person can employ his own productive activities to increase society's material wealth and spiritual wealth, helping the development of a more harmonious relationship between man and the

environment. Therefore, we must reject individualism and respect only collectivism.

3. World View. When the subjectivity theory of Liu Zaifu, et al., is tied down, impeded, interfered with, and restricted at every turn by the monster of "material," what is to be done? In this case, Liu Zaifu finally launches an attack against "material itself." He said that "traditional philosophy" (This is the term he uses to denote Marxist philosophy—Author's note) employs material ontology and reflection theory as a basic framework, thereby ignoring the existence of "subjectivity." "Subjective philosophy affirms that existence itself is a practical material and spiritual activity for mankind. The human world is a meaningful object that is created and explained by the perceiver."<sup>52</sup> This may be considered a display of the trump card in his method.

Just what is the "subjectivity of existence?" Does all existence have subjectivity? So-called existence has two meanings: One is the material, relative to thought; the second is relative to "not [having/existing]" indicating "having [and existing]," i.e., existing things. No matter in which sense, not all that exists has subjectivity. Only in a part of existence is there subjectivity and that is in man. In no existence other than man's is there any subjectivity to speak of. This is because only man is able as a result of productive activity to become an objective perceiver [zhuti 0031 7555] who understands and transforms. Not only can man be an object [keti 1356 7555] in the environment outside his own body, but he can be an object of his own self. It is because man possesses such subjectivity created by productive activity that he has been able to rise from the animal world to become paramount among all animals. Until such time as an extraterrestrial being is discovered, to prattle about the existence of subjectivity for anything other than man is sheer nonsense. Logical deduction produces two inevitable conclusions: Either it evokes god, and this dominant being, god, created everything; or it equates existence with man, everything other than man being created by man. The result is to become bogged in idealism.

Why is it that Liu Zaifu, et al., oppose material being theory and reflection theory? It is because in their view, the world was "created by man, this dominant being," or it is "an object whose significance is explained by man." Liu Xiaobo [0491 2556 3134] said it very straightforwardly: "Both nature and the history of society... in both, man was the dominant being in creating them, for his own existence."<sup>53</sup> A part of the human world (the history of society) is the result of man acting as the main figure in their creation. However, was the entire natural world on which mankind relies for existence created by man? Isn't this the same thing as insisting that the mother was born of her daughter? Zhang Yang's [1728 2254] dominant figure ontology, opposition material [fandui wuzhi 0646 1417 3670 6347] ontology, and reflection theory are inevitably headed toward such an absurdity, which flies in the face of common sense. In order to avoid falling into this predicament, Liu Zaifu has another trick, namely to maintain that existence ontology is only



the practical activity of mankind. What is not attained by mankind's practical activities (including understanding), and the natural world before mankind's emergence, simply does not exist in his existence ontology kingdom. Such nonrecognition is naturally more straightforward, but it may lead to an even greater unanticipated difficulty: where did a thing that has no root, namely man, come from? Liu Zaifu, in his boundlessly spacious thinking, also has an ingenious reply to this: Man is "self-sufficient and self-disciplined." He is "self-realizing"! This is truly "wonderful"! "Amen"! What else can we of the "common herd" say?

#### IV. Why Does Pluralism Theory Set Off Numerous Heavy Waves and Muddy a River Full of Water?

The propagandizing of the pluralism theory by Liu Zaifu, et al., is unfounded and false, so how has it been able, in such a brief period of time, to create such tumult in the country's ideological theory and in its literature and art? A "big shot" described the situation with jubilation as follows: "The situation during the past 10 years has been so different!" "The majority of writers and artists have gone entirely their individual ways." Where formerly they sailed along a centralized canal, "today, we have entered the wide ocean with a splash, a wide ocean that includes various trends and thoughts and different literature and artistic value orientations."<sup>54</sup> Is this not the "greatest freedom of the spirit" that those who practice liberalization seek? How did the situation become thus? This is a question that merits very good summarization. The reasons are multifaceted.

First of all, it is closely related to the "deification" of Marxism during the Great Cultural Revolution, and the order that "every sentence is truth," as well as to the "whatever" attitude that followed. "Discussion of what the sages had uttered according to what dared be said." The result was the creation of a general counterpsychology, which did extreme damage to the reputation of Marxism.

Second, it should be said, that this was related to our past theoretical mistakes. For a long time, both China and the USSR equated reflection theory directly with perception theory. We used classic Marxist-Leninist authors in expositions stressing theoretical thought, dogmatically applying it to literature and art, and even directly equated the aesthetics ideology and the literature and art ideology of Marx and Engels with realism. We viewed "art and literature as a reflection of social life" as only being and having to be a reflection of the essence and the objective laws of society. We either did not look at or ignored the diverse forms in which objective reality was transformed in the brains of authors and artists. Thus, when studying theoretical problems and evaluating specific works, we stuck a great deal to the specific statements of the classic authors while adhering little to the materialist dialectics of basic methodology. This resulted in an inability to make very good explanations or else procrustean explanations of many ancient and modern,

Chinese and foreign, non-cognitive and non-realistic works of literature and art. During the past 10 years of reform and opening to the outside world, in particular, during which a large amount of western art from the modern school has entered China, this theoretical one-sidedness has been more revealed.<sup>55</sup> This has given Li Zehou [2621 3419 0624] and Liu Zaifu opportunities, and it has left theoretical gaps that have enabled them to peddle their erroneous points of view.

Third, some of our comrades, particularly young comrades, who have a not very deep or firm philosophical foundation, have an even less genuine understanding and mastery of materialist dialectics. They do not understand how to discuss "singular" and "plural" methodologically. They are able to comprehend "source or inception" philosophically but not treat "source or inception" as a key factor and an essential element in things. Very many of our comrades accept and propagandize the actual meaning of pluralism and pluralization as being opposition to one-sidedness, supposing that things have to be understood in multi-faceted, multi-level ways. There is another important reason in addition to the ones given above, and that is the ever increasing influence on us of the "ideological struggle" waged by antagonistic western imperialist forces. Ever since we correctly discarded "taking class struggle as the key link," instituting reform and opening to the outside world, some people have gone to another extreme. They no longer mention class struggle. In the ideological field, in particular, they are afraid to raise class struggle. They fear it will irritate people, and they fear that it will scare people off. Consequently, this is just what the enemy wants.

Ever since 1950, when then American Secretary of State John Foster Dulles called upon the west to "wage ideological warfare"<sup>56</sup> against us, both politicians in power and out of power, important people in various walks of life, and even newspaper correspondents and artists have waged an unremitting ideological struggle. There has never been an armistice or hope for such. During the 1960's, the United States government gave Hollywood a memorandum that explicitly asked the American movie industry to further coordinate their "global strategy." The 20th Century Fox Movie Company deputy chairman of the board and director, Daryl Zanuck, wrote an article titled "Hollywood Opposes Communism," which praised American films as being "unaccredited ambassadors in metal boxes". He said that "these films carry the imprint of the American film makers' ideology... they are a most effective destructive force for opposing communism."<sup>57</sup> We oppose the use of literature and art to serve politics, but the enemy has always done this, albeit in extremely concealed and extremely ingenious ways. After China instituted reform and opening to the outside world, they felt even more that an opportunity had arrived. Nixon said with some pleasure that "They want our technology, and they want to do business with us. ...When they open the door to get the things they want, we should send in all the truth we are

able."<sup>58</sup> He believed that now we "are mostly emphasizing pragmatism rather than ideology." Thus, he expects that "the day will come when it will be possible to cause the Chinese not only to abandon Maoism (it has now done so) but also to abandon Leninism."<sup>59</sup>

What is the "truth" that the American masters want to send over? It appears that of greatest importance is the following two kinds of stuff. One is western value concepts. When conducting work against Chinese students studying in the United States, those concerned with directing the United States Information Agency say that "the United States should infuse America's basic value concepts in the maturing younger generation. This is a more important task than imparting scientific knowledge." They also say that "for the west, this is a wise investment." "Do not overlook the significance of America's helping train a substantial number of China's future leaders."<sup>60</sup> This is really casting a long line to hook big fish! Such a distinctive bourgeois Party spirit! At a time when quite a few people are criticizing the "infusing" of Marxism and advocating the dilution of ideology or even negating ideology in literature and art, are criticizing giving first place to politics but rather highlighting the vocational, our enemies are intensifying their struggle against us. Can this not but make people reflect deeply?

Second is the so-called plural concept and system. In 1986, then president Reagan, preached the need to help socialist countries institute "pluralized systems."<sup>61</sup> In recent years, they have repeatedly preached the need to formulate and implement a strategy of peaceful transition that leads communism toward a pluralistic system.<sup>62</sup> They urge that "the west must produce a strategic will," that "gradually enables the west to assist in coordinating with every concrete step made in the direction of pluralization."

Why do they emphasize pluralization so greatly? As was said above, nothing can be plural; a unified entity always leads a diversified one. It is not that western policy makers and powerholders do not understand this point. We practice centralization, and they practice centralization too. The reason that they do not directly propose that China become capitalist is that that would be too barefaced. It would be resisted and opposed. It would be a case of the more hurry the less speed; it would fail. They are experienced and astute. They say that in China "some incorrigibly obstinate communists still exist." "Rashness may harden the attitude of these communists."<sup>63</sup> So, they adopt the slogan of "pluralization." This appears neutral on the surface. It contains poison without appearing poisonous. It entices one to swallow it, and then this becomes the medium whereby our socialist centralization makes a transition to their capitalist centralization. They attack us for authoritarianism and for centralized political control. They attack the publicly owned economy, and they particularly attack Marxism. They vilify "communism for not allowing the people freedom in any regard, while depriving their people of all individuality."<sup>64</sup> They talk nonsense about "Marxism only reveals one side of

people, but fails to take into account mankind's varied aspects." Marx believed that people can accomplish nothing; they are powerless to create the environment and their own fate. However, "people are not objects controlled by lifeless economic forces and influenced by mechanistic historical laws, but have creativity and foresight."<sup>65</sup> What a striking similarity to the statements of Liu Zaifu et al. The west especially emphasizes the use of various bourgeois isms to cause the disintegration of our guiding thought. A report that the United States Senate Foreign Relations Committee prepared in 1960 titled "Ideology and Foreign Affairs" said that "America's goal is to use nationalist and humanitarian pressure to corrode communist ideology."<sup>66</sup> Not long after becoming president, Reagan pointed a spear directly at Marxism-Leninism. He drew up, publicized, and called upon the western world to jointly carry out a long-range plan to "throw Marxism-Leninism into the garbage can of history"<sup>67</sup> in order to realize their greatest and final dream of eastern Europe, the USSR, and China "becoming capitalist."<sup>68</sup>

It was under the influence of such an international climate that the "pluralism" trend of thought in China's ideological theory circles and literary and art circles ran rampant. In the preaching of pluralism, in whose direction was the spear of Liu Zaifu et al finally pointed? As in the west, it was against Marxism. They all understand that Marxism is our soul and the soul of socialism. Instead of killing people, they rely on the trick of stealing their souls. It was not until early spring in 1989 that Liu Zaifu showed this "pluralism" hand. Inviting like-minded people to gather around, he raised the banner of a "literary revolution," saying that this was a second "literary revolution" following "May 4th." The "revolutionaries" had opponents to overthrow. During "May 4th," the revolution of the vernacular language against the classical language brought about the overthrow of the Confucian shop for the destruction of the rule of feudal ideology. What would be the case this time? Liu Zaifu said that Marxism's "former ideological rule was actually a kind of literary rule. We should bend every effort to the literary revolution in order to demolish this authoritarian ideological rule, using the literary revolution to emancipate thinking so that the soul gains maximum freedom."<sup>69</sup> This was Liu Zaifu's "aesthetic idol."<sup>70</sup> In the spring of 1989, Li Zeyuan also said: "I do not feel that China currently needs a common thing to unify people's thinking. The characteristic of the modern age and the post-modern age is pluralism. China urgently needs pluralism. You should be able to believe in Buddhism, Christianity, or Marxism-Leninism. There is no need for centralized ideological control."<sup>71</sup> On the one hand he displayed his nature, his words betraying murderous intent, and spoken straightforwardly. On the other hand, he was ruthless in a hidden way, his claws remaining out of sight, but his spittle being poisonous, slandering Marxism as a religion.

As regards "pluralism," probably a final judgment can be passed only when the lid is on the coffin. It is difficult to

know how readers feel. Please think about it carefully. You criticisms and arguments are welcome.

This article could be fully concluded at this point, but suddenly I thought of several additional things I want to say.

Liu Zaifu believes a new era has arrived. The criticism that this elite has launched against old literary concepts and literary methods is not only the finest in content, but it is also objective, open, constructive, and more surpassing. Furthermore, the style of writing is unprecedentedly wonderful. He said: "What makes people happy is" "the use of 'fair play,' with very little smell of gunpowder." It was not like the "former explosive kinds of articles, which sought to devour the other party at every turn and were filled with provocations, attacks, and insults. Such an odious style of writing created a psychology of dread for the entire nation (even creating a metamorphosis in the national psychology)." He makes the implied boast that their present articles "are mostly reasonable with little irritation, which is extremely beneficial in moderating the country's tense cultural atmosphere, creating a normal cultural environment in the country."<sup>72</sup> It is simply that the spring breezes have brought about an inundation of the Chinese literary forum. Moreover by comparison, he rather smugly spoke of himself. He said that because of criticism about disgust with the pervasive smell of gunpowder, "I prefer some softness such as concepts like 'making up,' and 'discussion.'"<sup>73</sup>

However, either after, or at the same time, in 1985 and 1986 that he was about to sing these pleasing notes, we heard some other grating sounds from him. His previously quoted attitudes about the "literary revolution," and dealing with Marxism serve as counter-evidence. The despicable attitude and the crude style of writing that he displayed in 1986 during his debate with Comrade Yao Xueyin [1202 7185 0995], and the personal attacks he carried out against an author of the older generation who made outstanding contributions to contemporary Chinese literature are matters with which everyone is familiar. I will not repeat them here.

Therefore, do we not more truly and more deeply feel the falseness of the theories of Liu Zaifu, et al? Most of this falseness was not created from subjective consciousness, but rather stemmed from his ideological bent and his fundamental standpoint, which brought a result other than the intended one. Possibly this also holds the tiniest and faintest tragic coloration. Of course, it more likely has a slightly comic air.

November 1990 at Lujia Shan in Wuchang

#### Footnotes

1. Liu Zaifu, *Literary Reflections*, p. 44; People's Literature Press, 1986.
2. Ibid., p. 32.

3. Liu Zaifu, Liu Xinwu [0491 1800 2976], and Liu Zhanqiu [0491 3277], "Three People Discuss the Literary Revolution," WENXUE BAO, 2 February 1989; also published in SHANGHAI WENLUN, No. 1, 1989.

4. Lao-tsu, Chapter 25.

5. Chuang-tsu, *Zhibei You*.

6. History of Foreign Philosophy Teaching and Research Office, Philosophy Department, Beijing University translation of *Selected Readings of Original Works of Western Philosophy*, Volume I, pp. 369, 375, 381; Commercial Press, 1981.

7. Ibid., pp. 374, 377.

8. *Selected Works of Marx and Engels*, Volume 3, p. 96.

9. Liu Zaifu, *Literary Reflections*, p. 5, People's Literature Press, 1986.

10. Ibid., pp. 3-4.

11. The characters *Yiru* [4448 0354] not properly translated. Changed to *Yingru* [2503 0354]—Author's note.

12. Liu Zaifu, *Literary Reflections*, pp. 12-13.

13. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN [LITERARY REVIEW], No. 6, 1985 and No. 1, 1986.

14. "Literary Dialogue Between Li Zehou and Liu Zaifu," RENMIN RIBAO, 12 April 1988, p. 5.

15. *Anthology of Historical Data on Chinese Aesthetics*, Volume 1, p. 134; Zhonghua Press, 1980.

16. Liu Zaifu, *Literary Reflections*, p. 5.

17. Liu Zaifu, "Literary Research Should Revolve Around Man," WEN HUI BAO, 8 July 1985.

18. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN No. 6, 1985 and No. 1, 1986.

19. Ibid.

20. Marx, *1844 Economic Philosophy Manuscript*, p. 54; People's Press, 1985.

21. *Selected Works of Marx and Engels*, Volume 3, p. 81.

22. Pei Genyu [1014 2704 6133]. See *Translations of Classical Literary and Art Theory*, Volume 11, p. 11; People's Literature Press, 1966.

23. "Exposition Generated by the Spirit of Two Forms Founded on Reflection Theory." Please see *Principles of Literature and Art Production*, edited by He Guorui [0149 0948 3843], pp. 30-37, 43-44, 54-61; People's Literature Press, 1989.

24. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN No. 6, 1985 and No. 1, 1986.

25. Ibid.
26. *Selected Works of Lenin*, p. 648; People's Press, 1972.
27. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN No. 6, 1985 and No. 1, 1986.
28. Ibid.
29. Liu Zaifu, *Temperament Combinatorial Theory*, p. 23, Shanghai Literature and Art Press, 1986.
30. Liu Zaifu, *Literary Reflections*, p. 46, People's Literature Press, 1986.
31. Liu Zaifu, *Temperament Combinatorial Theory*, pp. 59-60, Shanghai Literature and Art Press, 1986.
32. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN, No. 6, 1985. It should be additionally noted here that the earliest record of "feelings being the root of literature" was not a 20th-century Western literary theory. The late Tang dynasty Chinese poet, Bai Juyi, said clearly: "Poetry is rooted in feelings" (Yuyuan, Book 9). It is unclear whether Liu is ignorant of China's traditions or whether it was out of excessive worship of the contemporary West that he made this judgment that flies in the face of common knowledge.
33. He Guorui, "Three Themes in the Modernization of Literature and Art," WUHAN DAXUE XUEBAO [WUHAN UNIVERSITY JOURNAL], No. 1, 1989.
34. Refer to Meng Zhaolan [1322 2507 5695], *Human Feeling*, p. 26; Shanghai People's Press, 1989.
35. Ibid., p. 5.
36. Liu Zaifu, *Temperament Combinatorial Theory*, pp. 426-429; Shanghai Literature and Art Press, 1986.
37. Ibid., pp. 430-435.
38. Ibid.
39. Liu Zaifu and Lin Gang, *Tradition and the Chinese*, p. 21; Joint Publishing Company, 1988.
40. Ibid., p. 91.
41. Ibid., pp. 397-401.
42. Marx, *1844 Economic Philosophy Manuscript*, p. 53; People's Press, 1985.
43. *Selected Works of Marx and Engels*, Volume 1, p. 18.
44. Ibid., Volume 2, p. 90.
45. Liu Zaifu, "On the Subjectivity of Literature," WENXUE PINGLUN [LITERARY REVIEW], No. 6, 1985, and No. 1, 1986.
46. Ibid.
47. Ibid., Volume 2, p. 86.
48. Ibid., Volume 2, p. 87.
49. Liu Zaifu and Lin Gang, *Tradition and the Chinese*, p. 398; Joint Publishing Company, 1988.
50. Ibid., p. 422.
51. Ibid., p. 15.
52. Liu Zaifu, "On the Literary Revolution's Criticism of the Literature of the 1980's," WENXUE PINGLUN, 1989, No. 1.
53. Liu Xiaobo, "Appreciation of Beauty and Excellence," WENXUE PINGLUN, 1988, No. 6.
54. Yang Yu [7122 7183], "Freedom and Weightlessness—Do We Want Them, and What Kind of Literature and Art Value Concepts Do We Want?," WENYI BAO, 16 April 1988.
55. "On Our Theoretical Mistakes." Please see *Principles of Art Production* by He Guorui, pp. 69-74; He Guorui, *Three Themes in the Modernization of Literature*.
56. Dulles, *War or Peace*. Refer to *Western Strategy, Tactics, and Methods for the Peaceful Evolution of Socialist Countries*; Hubei People's Publishing House, 1989, p. 141.
57. GUANGMING RIBAO, 2 March 1964.
58. See *Western Strategy, Tactics, and Methods for the Peaceful Evolution of Socialist Countries*, op. cit., p. 199.
59. Ibid., p. 337.
60. Ibid., p. 101.
61. Ibid., p. 293.
62. Ibid., p. 281.
63. Ibid., p. 302.
64. Ibid., p. 321.
65. Ibid., p. 326.
66. Ibid., pp. 36-37.
67. Ibid., p. 46.
68. Ibid., p. 364.
69. Liu Zaifu, Liu Xinwu [0491 1800 2976], and Liu Zhanqiu [0491 3277], "Three People Discuss the Literary Revolution," WENXUE BAO, 2 February 1989; also published in SHANGHAI WENLUN, No. 1, 1989.
70. "Literary Dialogue Between Li Zehou and Liu Zaifu," RENMIN RIBAO, 12 April 1988, p. 5.
71. Li Zehou, "A 70-Year Retrospective on May 4th," WENLUN BAO, 15 June 1989.
72. Liu Zaifu, *Literary Reflections*, p. 3; People's Literature Press, 1986.

73. Liu Zaifu, *Temperament Combinatorial Theory*, p. 519; Shanghai Literature and Art Press, 1986.

### Li Ximing Speaks on Reform at Beijing CPC Meeting

91CM0380A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 3, 5 Mar 91 pp 4-6

["Excerpts" of speech by Li Ximing at the 10th (Expanded) Plenary Session of the Sixth Beijing Municipal CPC Committee: "Strive for New Victories in Capital Modernization, Reform"]

[Text] The Seventh Plenary Session of the 13th CPC Central Committee was an important session held at a critical moment in history. We must get deeply involved in publicizing, and in comprehensively and thoroughly implementing, the resolution of the Seventh Plenary Session. Below I discuss several opinions on how to do good work in several aspects in 1991.

#### First, Concentrate Energy on Doing Economic Work Well

In the next 10 years, whether China can achieve the second-stage goal of its modernization is a life-and-death matter for the socialist system. We must firmly establish the idea of making economic construction the center and concentrate all of our strength on pushing the economy forward.

The party Central Committee recently stressed again and again that the invigoration of large and medium-sized state-run enterprises must be put in a prominent, important position in economic work. This stress tallies completely with Beijing's reality.

Since reform and the opening up to the outside world began, the state has taken a series of measures to invigorate the large and medium-sized state-run enterprises. These enterprises have grown in strength, and there has been very large development in their production. However, the situation in which the enterprises lack vitality has not yet been fundamentally changed. Particularly in recent years, because of changes in the external environment, the burden on the enterprises has been too heavy. Many enterprises have encountered fairly large difficulties in production and operation. This is not only an economic problem; it is also a political problem, and a high degree of attention must be paid to it.

The fundamental way to invigorate large and medium-sized state-run enterprises is to deepen reform. This year, in the reform of enterprises, consideration should be given to three aspects: First, the laws, regulations, and policies already promulgated by the party Central Committee for the invigoration of the enterprises should continue to be implemented resolutely and thoroughly. Second, with regard to the "two guarantees and one link" contract management responsibility system, the optimized labor combination, and other reform measures, practice has proved that their direction is correct and their results good, and they should continue to be upheld

and perfected. Third, reform of the enterprise leadership system should be deepened, giving further play to the role of the enterprise party organization as the political nucleus, and upholding and perfecting the factory director responsibility system. Fourth, continue to reform the enterprise's labor, personnel, and distribution systems; more thoroughly break the "iron rice bowl"; and overcome egalitarianism. Sound systems for social safeguards must be gradually set up in order to create the social conditions for optimized labor combinations and for competitive mechanisms. Fifth, vigorously but safely organize and set up enterprise groups, give impetus to the adjustment of the industrial structure and the product mix, and strengthen the competitiveness of enterprises. Sixth, introduce foreign capital and import new technologies suited to the bent of older enterprises, and accelerate the technological transformation of enterprises.

To invigorate large and medium-sized state-run enterprises, there must be relevant policies and a fairly good external environment, but in the final analysis the invigoration will depend on a good system of production, administration, and management in the enterprises. At present, faced with the unfavorable conditions brought about by the market slump, some enterprises do not, by all ways and means, improve quality, develop new products, and meet market demand, but rather sit back and wait for the market to "reheat," with the result that they lose the opportune moment and for a long time are unable to extricate themselves from their predicament. Conversely, under similar external conditions, the leaders of some enterprises emancipate their minds and bestir themselves. They are good at turning pressure into power, difficulty into opportunity. They keep a close watch on the market and enhance their ability to meet emergencies. As a result, they regain the initiative and create a new situation. Therefore, the decisive factor for enhancing an enterprise's vitality lies within the enterprise itself. The improvement of economic returns must be made the focal point of work, and, in line with the State Council's demands, activities for quality, variety, and returns must be conscientiously organized well.

The invigoration of large and medium-sized state-run enterprises requires the energetic support of all quarters of society. Administrative and management departments at all levels must establish the idea of serving the enterprise and of truly being public servants; they must not be "mothers-in-law," and even less must they be "masters." They should give more support and help and do more things for the enterprise to dispel its anxieties and to resolve its difficulties. They must not engage in formalistic activities that violate economic laws, disrupt the enterprise's normal operations, and waste money and manpower. They should try to change the situation in which the enterprise revolves around the administrative organizations, and try to ensure that the enterprise's managerial personnel are able to put their main energy on production and operations.



Since the beginning of reform and opening up to the outside world, in the municipality there have appeared a number of enterprises in which production and operations are good, in which ideological and political work is good, and in which great contributions are made to the state. They have accumulated successful experiences, which should be conscientiously summed up and popularized. Of these enterprises, the Capital Iron and Steel Complex is representative of the experiences in reform. We must study and popularize the experiences of this complex, and take important steps to invigorate the large and medium-sized state-run enterprises.

**Second, Insist That Marxism Occupies the Front in the Ideological Domain**

After the drastic changes in East Europe, quite a few comrades in China received an education, and they deeply feel that if the four basic principles are not applied and if a clear-cut struggle is not waged against bourgeois liberalization, the party and the state will be in mortal danger. But a tiny minority of people were encouraged by the changes, and they fantasized that China would one day practice so-called democratic socialism. We certainly must have a sufficient understanding of the long-term, complex, and uncompromising nature of the struggle in the ideological domain, and we cannot lower our guard. We must soberly see that, in the ideological domain, the question of who triumphs over whom—the proletariat or the bourgeoisie—is far from being answered, and we must unswervingly wage a tenacious struggle. The party's ideological work must continue to be enhanced.

Enhancing work in the ideological domain, basically speaking, means letting Marxism occupy the front, arming the party members and the cadres with Marxism, strengthening the capability to distinguish and resist the ideological trend of bourgeois liberalization and the corrosive influence of bourgeois decadent ideas, upholding the four basic principles, and not letting the ideological trend of bourgeois liberalization gain ground and even more not letting it spread unchecked. Socialist ideological education should continue to be penetrating and thorough. This year we must, in a planned way, sort out and analyze by subject the truths and falsehoods of theory, which over the past several years have been confused by bourgeois liberalization. In particular, the essence of so-called democracy, freedom, and human rights, which the Western monopoly bourgeoisie and the people who obstinately take the stand of bourgeois liberalization advocate, must be thoroughly exposed and criticized.

While importing and studying foreign advanced technologies and managerial experiences, and while expanding foreign cultural interchange, we absolutely cannot fail to discriminate between the good and bad things coming in from foreign countries and blindly worship them. In particular, party members and cadres who work in joint ventures or foreign-funded enterprises, or who work abroad, especially comrades who have leadership

responsibilities, must, in accordance with the party's and the state's policies, be good at cooperating on official business with foreign personnel, arousing the enthusiasm of foreign businessmen, and achieving equality and mutual benefit. At the same time they must be on their guard against attacks by the decadent ideas of the bourgeoisie. They certainly must not forget their own status as representatives of the Chinese side, lose their socialist principles, and cater to and satisfy the presumptuous demands of foreign businessmen. Even less can they regard their work in joint ventures or foreign-funded enterprises, or their work abroad, as an opportunity to seek individual private gain.

Letting Marxism occupy the ideological front in reality means letting it contend with bourgeois ideas for the allegiance of the masses, particularly for the allegiance of the younger generation. We must guide the broad masses and the teenage youth to establish a scientific world outlook, and to establish the moral outlook and values of socialism and collectivism. We should conscientiously get rid of the self-designing, self-realizing influences of extreme individualism that make the self the center and that have been prevalent over the past several years.

We must be good at organizing and guiding the great number of literature and art workers to persist in serving the people, and, for the orientation of socialism, to create more excellent works of literature and art that possess a distinct national spirit and a strong flavor of the times, that suit both refined and popular tastes, and that encourage people to go all-out for progress.

To let Marxism occupy the ideological front, we must uphold the policy of "letting a hundred flowers blossom and a hundred schools of thought contend."

Party organizations and leading cadres at all levels must pay a lot of attention to work in the ideological domain. They should closely follow the trends in the ideological, theoretical, and cultural domains, and give the masses timely, focused ideological and political education. In Beijing Municipality there are now a number of newspapers and periodicals that have distinctive features. All units should make good use of these materials in conducting propaganda and education for the masses.

**Third, Make the Strengthening of Leading Groups at All Levels a Strategic Task To Be Tackled Constantly**

Achieving the magnificent goals of the 10-Year Program and the Eighth Five-Year Plan imposes higher demands on the party's work, and the party's leadership must be further enhanced and improved. The core problem is the strengthening of the building of leading groups at all levels. This work is now of particularly important significance. An important question is how to put the leadership at all levels in the hands of people who are loyal to Marxism, so that the party's fine traditions and style will be carried on and displayed.

In strengthening the building of leading groups, what is most fundamental is to improve the accomplishments in

Marxist theory of leading cadres at all levels and to enhance their party spirit. They must have a firm, correct political orientation; resolutely implement the party's line, principles and policies; and consciously maintain consistency in thought and deed with the party Central Committee. They must have a fairly sound foundation in the basic theories of Marxism; and be able, amid the many and complex storms of international and domestic class struggle, to keep a clear political head and keen insight, under any and all circumstances upholding the proletarian position and resolutely struggling against bourgeois liberalization and against all mistaken ideological trends that run counter to Marxism. They must be good at closely integrating the four basic principles with the reality of reform, opening up to the outside world, and modernization, and at truly putting them on a solid foundation and not just paying lip service to them.

Strengthening the building of leading groups demands that leading cadres at all levels have a strong sense of responsibility for the party's cause and for the cause of building socialism; be familiar with and have a mastery of the specialized knowledge and skills in their own profession; have the capability to control the overall situation, resolve contradictions, and deal with real problems; and initiative work in a creative manner. Leading cadres at the basic level in prefectures and counties who for a fairly long time have been unable to open up situations, and whose work has shown no improvement, should be investigated and adjusted.

Leading cadres at all levels must persist in the aim of serving the people wholeheartedly, and they certainly must not use the power bestowed on them by the people to seek private gain. They must maintain close links with the masses. With regard to the relevant provisions for building honest administrations, the leading cadres should earnestly practice what they preach and responsibly handle well the building of honest administrations in their own unit and own profession.

Leading groups at all levels and cadres at all levels must represent all corners of the land, and they must not form small coteries or represent close or distant relatives. They should put their energy and thoughts on the party's cause and the people's cause; they must not, as some people do, curry favor and rush about all day in pursuit of individual power, benefits, fame, and position. They should further perfect democratic centralism, conscientiously initiate criticism and self-criticism, take the interests of the whole into account, and strengthen unity. Respect between leading cadres must be encouraged. They must support each other, make allowances for each other, and learn from each other's strong points to offset their own weaknesses; they must not foil each other's efforts. In particular, the principal leading cadres must be broadminded and have a democratic work style, be good at listening attentively to different opinions, and be good at uniting comrades to work together. Unity is an important issue in the building of leading groups, and sufficient attention must be paid to it.

Developing younger cadres is now an urgent task in the building of leading groups. Of primary importance are political quality, political stand, and political orientation; and we must put particular emphasis on educating and guiding younger cadres to establish the Marxist world outlook and the communist outlook on life. We must draw from all quarters comparatively good younger cadres who have prospects for development and send them to party schools or training classes; and we must put them in suitable positions, where in practice they will be tempered, improve their thinking, and enhance their ability. In developing and selecting younger cadres, we must uphold the "four modernizations" standards, and make a point of widening their field of vision and broadening their talents; and we must insist on making stepped, graded promotions and overcome the idea of determining qualifications by order of seniority. Veteran cadres who have already retired from leadership posts should help the party organizations to discover and develop younger cadres, and should be concerned about the maturation of younger cadres.

#### **Fourth, Further Consolidate and Develop a Stable, Unified Political Situation**

Social stability is an important condition for political stability and economic stability. The capital's political stability and social stability are related to China's overall situation, which is now good. But there are still many factors affecting stability. The tiny minority of people who obstinately persist in the stand of bourgeois liberalization have not stopped their activities in opposition to socialism. The hostile forces abroad and outside our borders certainly will not abandon their pursuit of the strategy of infiltration, subversion, and "peaceful evolution." They will struggle against us by all means, overt and covert, legal and illegal. We must not lower our guard.

Enhancing public order by a comprehensive improvement of it is the basic policy and fundamental way for consolidating and developing the situation of social stability and for solving problems of public order. Each system, each department, and each unit must make the comprehensive improvement of public order an important piece of work and a clear-cut task, and must put forward measures and conscientiously carry out the improvement.

In consolidating and developing the situation of social stability, we must be good at correctly handling the contradictions among the people. We must listen attentively to the voices of the masses, and, within our power, do things for the masses and resolve their difficulties. With regard to difficulties that cannot be resolved for a time because of limited conditions, we should give the masses a clear explanation and obtain their forgiveness. In formulating and issuing all reform measures, full consideration should be given to the masses' economic and psychological ability to undertake the measures. We must also guide and educate the masses to establish the concept of viewing the situation as a whole, consciously



subordinating themselves to long-term and overall interests, and enhancing their ability to undertake reforms. We must take seriously the letters the people send to us and the complaints they make when they call on us in person, do good mediation work, do all we can to resolve some contradictions at the grassroots, and nip in the bud factors that could cause instability. With regard to some problems of ideology and work among the people, we recommend the initiation of criticism and self-criticism and the waging of vigorous ideological struggle in order to distinguish right from wrong and to strengthen unity.

What is most fundamental in consolidating and developing the situation of social stability is to uphold conscientiously the people's democratic dictatorship. The upholding of the people's democratic dictatorship is an important part of the four basic principles; and the upholding of the socialist path, the upholding of the Communist Party's leadership, and the upholding of Marxism and Mao Zedong Thought are of equal importance. The 4 June incident shows that a complex class struggle still exists in China. Looking at the international balance of power, we see that the forces of capitalism are stronger than the forces of socialism, and that we still face the danger of evolution, infiltration, and subversion. By upholding the people's democratic dictatorship we will be able to ensure the security and stability of society.

The foundation of the people's democratic dictatorship is the practice of the most extensive democracy for the masses of people. China has scored tremendous successes in building its socialist democracy. Of course, much work remains to be done. We must particularly stress the building of democracy at the basic level. Laws and systems must be used conscientiously to ensure that the broad masses of people better enjoy democratic rights.

The function of dictatorship must not be weakened; it must be strengthened. The organs of dictatorship should constantly strengthen their own building. We must resolutely crack down on the plotting activities of hostile forces at home and abroad who try in vain to subvert the people's democratic dictatorship; those who commit crimes that seriously jeopardize the security of the people's life and property must be severely punished, and there absolutely cannot be any soft-heartedness.

Domestically there is now political and economic stability. Although the international situation is turbulent and changeable, the development of the general situation is favorable for us. We must seize the opportunity, unite all forces that can be united, mobilize all positive factors that can be mobilized, quietly immerse ourselves in hard work, and strive to promote the advancement of all work.

### **Sketch of Jiang Zemin's Professional Outlook**

91CM0351B Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 254, 1 Mar 91 pp 14-15

[Article by Ch'en I-ke (7115 0001 2047): "Jiang Zemin's Tours of Inspection and His Frame of Mind About His Personal Circumstances"]

[Text] During the past year, Jiang Zemin has made inspection trips everywhere to show himself. He clearly has no personal support system of his own, and it is difficult for him to rely on such a system to build a loyal following. Reportedly Jiang's frame of mind is calm. His view is: first, not to be a political star; second, to play a harmonizing role; and third, to stay in office as circumstances allow.

With the great help of friends, I recently prepared a schedule and a namelist of people who accompanied CPC Central Committee General Secretary Jiang Zemin on inspection trips during the past year. I also gained some indirect understanding about Jiang Zemin's frame of mind and ideas from statements of some of Jiang Zemin's close friends and relatives. I will provide some analysis of Jiang Zemin's personal support system, the pattern of his inspection tours, and his frame of mind about his personal circumstances.

### **A Year's Trips Provide Food For Thought**

I "followed" Jiang Zemin on his trips for a year for the following three purposes:

1. Jiang Zemin suddenly became general secretary after "4 June." Outsiders say that his personal support system is almost nonexistent, and they even speculate that his power base is weak. Whether such a view is tenable might be answered by observing Jiang Zemin's movements.
2. Deng Xiaoping promoted Jiang Zemin. Outsiders know little about his work capabilities, his work style, and his work attitude. His movements may also answer these questions.
3. The period June to December 1989 was an extraordinary one. Jiang Zemin had to remain in Beijing to deal with the crisis. However, the whole year of 1990 might be said to have been a year in which he went everywhere in the country to "show himself." Whether "what he showed" was well received or not depended on the grassroots' impression of this "key leader." A conclusion about this is possible only after an analysis of his inspection activities.

Therefore, I ask that everyone carefully examine the attached table, and that they analyze and ponder it.

### **Personal Support System**

Through an analysis of Jiang Zemin's inspection tour activities, I believe first that Jiang Zemin has no personal following. The analytical basis for this view is:

1. During the more than 10 inspection tours in a year, his only real escorts were officers assigned by two confidential agencies. One was the CPC Central Committee Office, and the other was the CPC Central Committee Policy Research Office. Of the personnel from the CPC Central Committee Policy Research Office, the only one who truly closely followed Jiang Zemin's activities was Zeng Qinghong [2582 1987 4747], whom Jiang transferred from Shanghai. If one says that both the CPC Central Committee Office and the CPC Central Committee Policy Research Office may be regarded as "official secretariats" for the general secretary, and that the dispatch of personnel to accompany a tour is part of their official duties, then one can say that apart from a secretary, Jiang Zemin had no lieutenants with him.

2. One marked impression derived from analysis of Jiang Zemin's activities on more than 10 trips is that among officials at the Politburo and Secretariat level, Ding Guan'gen [0002 7070 2704] seems to be an important

person who worked together with Jiang Zemin more than any other. Inasmuch as Ding used to be a card playing friend of Deng Xiaoping, this "cooperation" may be only regarded as Old Deng secretly lending a helping hand to Jiang.

3. All of Jiang's more than 10 inspection tours may be regarded as "official visits" for which the escorts were selected as local situations warranted. For example, during a visit to Shanxi to talk about coal, the officers who went along were from the Ministry of Energy, the Ministry of Railways, and the General Logistics Department. During a visit to Daqing to talk about "oil" and the "iron man spirit," those who went along were responsible officers from the State Statistical Bureau, the Petrochemical Corporation and the General Political Department, and the Policy Research office. Such "official visits" clearly show the difficulty of activities associated with the building of a loyal supporter base, and the list of Jiang's escorts also shows that the escorts were on official duty assignments.

**Timetable of Jiang Zemin's Inspection Tours to Various Places, and Names of Escorts (1 Jan. 1990-1 Jan. 1991)**

Time	Place	Escorts	Purpose of Tour
18-24 Jan. 1990	Shanxi	Ye Qing [0673 7230]: Deputy Chairman, State Statistical Bureau; Hu Fuguo [5170 1381 0948]: Deputy Minister, Ministry of Energy; Shi Xiyu [4258 1585 3768]: Deputy Minister, Ministry of Railways; Zhang Bin [1728 1755]: Deputy Director, General Logistics Department; Zeng Qinghong: Deputy Chairman, CPC Central Committee Office; Zheng Keyang [6774 4430 2254]: Deputy Chairman, CPC Central Committee Policy Research Office	Investigation of Datong coal fields, to solve coal mine living condition and coal shipment problems.
23 Feb.-1 Mar. 1990	Heilongjiang	Zou Jiahua [6760 1367 5478]: State Council councilor and Minister in Charge of State Planning Commission; Wang Tao [3769 3447]: Director, China Petrochemical Corporation; Zhou Wenyuan [0719 2429 0337]: Deputy Chairman, General Political Department; Zeng Qinghong; Teng Wensheng [3326 2429 3932]: Deputy directors, CPC Central Committee Policy Research Office	Inspect Daqing oil fields to understand Daqing production and study problems in stabilizing production, and play up once again the "Daqing Spirit."
12-17 May 1990	Hainan	Ding Guan'gen: Secretary, CPC Central Committee Secretariat; Hao Jianxiu [6787 1696 4423]: Deputy Minister in Charge of State Planning Commission; Wang Weicheng [3769 4850 3397]: Chairman, CPC Central Committee Policy Research Office; He Qizong [0149 0366 1350]: Deputy Chief of Staff; Liu Jiang [0491 3068]: Deputy Minister, Ministry of Agriculture; Hu Guangbao [5170 0342 1405]: Deputy Chairman Special Economic Zone Office	To inspect the Hainan SEZ, emphasizing no change in policies.
19-27 June 1990	Guangdong	Gan Ziyu [3927 1131 3768]: Deputy Minister in Charge of State Planning; Li Jinai [2621 4949 5082]: Deputy Chairman PLA General Political Department; Zeng Qinghong, Zheng Keyang [6774 4430 2254], and Hu Guangbao	Inspected the Shenzhen and Zhuhai SEZ; took part in National SEZ Work Conference where he gave a speech.
19-20 July 1990	Qinghai	Ding Guan'gen; Chi Haotian [6688 3185 3944]: Chief of Staff; Zhao Nanqi [6392 0589 6386]: Director General Logistics Department; Zhou Guangyu: Political Commissar General Logistics Department; Fu Quanyou: Commander, Lanzhou Military Region	Inspected military units in Qinghai. This was the first time after becoming chairman of the Military Affairs Commission that Jiang Zemin made a tour of military matters.
20-29 July 1990	Tibet	Ding Guan'gen, Chi Haotian, Gan Ziyu, and Wang Weicheng; Zhang Shengzuo [1728 5116 0155]: Deputy Director United Front Work Department; Jiang Jiafu [3068 1367 4395]: Vice Minister, State Nationalities Affairs Commission; Zhang Zuocai [1728 0147 2088]: Deputy Minister, Ministry of Finance; and Zeng Qinghong	Toured Tibet to emphasize implementation of nationalities policies, and to discuss in restricted meetings increases in government subsidies to Tibet.

22 August-1 September 1990	Xinjiang	Yang Baibing [2799 4101 0393]: Secretary, Military Affairs Commission; Wang Enmao [3769 1869 5399]: Chairman, National CPPCC and Chairman Xinjiang Advisory Committee; Fu Quanyou, Ye Qing, Wang Tao, Liu Jiang, Zeng Qinghong, and Teng Wensheng	To discuss economic work in Xinjiang, principally increasing petroleum production, finding large oil fields, and doing a good job in agriculture.
23-30 September 1990	Inner Mongolia	Names of traveling companions unknown	Continuation of border area trips
25-31 October 1990	Liaoning	Xu Xin [1776 0207]: Deputy Chief of Staff; Sheng Shuren [4141 2938 0088]: Deputy Minister in Charge of Planning Commission; Zhang Yanning [1728 1750 1337]: Deputy Chairman, State Restructuring of the Economic System Commission; Wei Jianlin [5898 1696 2651]: Deputy Chairman, CPC Central Committee Policy Research Office	Noted that the last 10 years of the 20th century are the most crucial years in an effort to uplift the economy
19-25 November 1990	Guangxi	Gan Ziyu, Wang Weicheng, and Zhou Wenyuan; Wang Lianzheng [3769 6647 6927]: Deputy Minister of Agriculture; Jiang Jiafu and Hu Guangbao	Emphasized economic construction; proposed wholehearted uplifting of the economy.
26-28 November 1990	Shenzhen and Zhuhai	Names of traveling companions unknown	Took part at both places in the commemoration of the 10th anniversary of the founding of SEZs.
7-13 January 1991	Jilin	Zhou Keyu, Sheng Shuren, and Teng Wensheng; Yang Dezhong [2799 1795 0022]: First Deputy Chairman, CPC Central Committee Office; He Guanghui [6320 0342 6540], Deputy Chairman State Restructuring of the Economic System Commission; Li Dezhu [2621 1795 3178], Deputy Chairman State Nationalities Affairs Commission	Emphasized implementation of the spirit of the 7th Plenum

#### Inspection Tour Pattern

Second, Jiang Zemin's inspection tours had the following pattern:

1. Traveling in a circle around the borders from Heilongjiang to Guangdong, Hainan, Qinghai, Tibet, Xinjiang, Inner Mongolia, Liaoning, Jilin, and Guangxi.
2. Because Jiang is chairman of the Military Affairs Commission, he made sure to inspect military units garrisoning the borders, both to demonstrate Party concern for troops garrisoning the borders, and to highlight Jiang's status as chairman of the Military Affairs Commission.
3. He inquired into local economic work, which can be deduced from those who accompanied him. For example, on his visit to Guangxi, he took along a deputy minister of agriculture (Guangxi is a largely agricultural province). On his visit to Liaoning, he took along the chairman of the State Restructuring of the Economic System Commission. (In Liaoning where state-owned enterprises are concentrated, system reform is a matter of great importance.) When he visited provinces in which coal and petroleum are important (such as Shanxi, Heilongjiang and Xinjiang), he made sure to take along officials in charge of such matters. Reportedly he took officials along to conclude major plans for all-out future development of Xinjiang's oil fields.

#### Frame of Mind About Personal Situation

Jiang Zemin's personal circumstances are somewhat difficult, but his frame of mind is calm. In summary, it is as follows:

1. Jiang Zemin's personal circumstances are difficult. The difficulty is that above him is Deng Xiaoping, and in front of him, behind him, and to the left and right of him are Li Peng and standing committee members who hold real power. His authority derives from Deng Xiaoping's authority; it is only a "projected authority." He is dependent on Deng Xiaoping, and he cannot evade Li Peng's coterie. Fortunately, Deng's and Li's thinking differ markedly. There is evidence that Deng is dissatisfied with Jiang for not taking charge of the economy, and for not taking the initiative in pushing reforms.

2. Li Peng et al hold full leadership power over administrative departments and economic work. Jiang Zemin has no way to insert himself into a directing role. His situation differs entirely from that of Zhao Ziyang when he held the same position. Zhao continued to hold control over several leadership teams.

3. Jiang's frame of mind is calm. According to close friends, Jiang makes the following assessment of himself: First is not to be a political star; second, his most important task is to play a harmonizing role; and third is to serve as general secretary at the pleasure of the system. The reasoning behind these words is: It makes no difference whether he is general secretary or not; he does not desire to make a name for himself, but he does seek not to err; he personally has no political ambitions.

It is very difficult to say whether or not Jiang Zemin's frame of mind is right. One can only say that his frame of mind is consistent with his not building up a constituency. In addition, given the difficult political position he is in, adoption of this frame of mind at the present time may be a stopgap stratagem.

**Li Ximing Praises Capital Steel Mill***91CM0380B Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 3, 5 Mar 91 p 6*

["Excerpt" of speech by Li Ximing at 10th (Expanded) Plenary Session of Sixth Beijing Municipal CPC Committee: "Li Ximing on Studying, Popularizing Capital Steel's Experiences"]

[Text] For more than 10 years the Capital Iron and Steel Complex (hereafter shortened to Capital Steel) has closely integrated the upholding of the four basic principles with the reform and opening up to the outside world; displayed the party's political superiority; and carried on the charter of the Anshan Iron and Steel Complex and the Daqing spirit. In the new situation, it has also been forthcoming with new developments and new creations. The experiences of Capital Steel are experiences in comprehensively and thoroughly implementing the party's basic line and in building a socialist publicly owned enterprise with distinctive Chinese features. Twelve years of practice and testing have proved that its experiences are tenable and successful.

Some people maintain that "whether the experiences of Capital Steel are good or not, they cannot be learned" and that "Capital Steel depends on a preferential policy for its sustenance, and it is impossible for others to learn from it." These statements show a lack of understanding and study of Capital Steel's circumstances and experiences. The main experiences of Capital Steel are: in line with the principle of integrating responsibility, rights, and interests, completely and systematically establish the contract system and form scientific, close-management mechanisms; wholeheartedly depend on the working class and truly let the staff and workers be the masters; insist on being self-reliant, depend on scientific and technological progress, proceed from reality, and vigorously assimilate the advanced science and technology of foreign countries and their management experience; reform the labor personnel system and the distribution system; truly break the "one big pot of food"; closely integrate enterprise contract goals, and strengthen and improve ideological and political work; strictly administer the party and constantly strengthen its building; and let the party committee exercise ideological and political leadership, exercise overall responsibility for production and operations, and achieve the three-way enhancement of party, government, and industry. These experiences are of universal significance, and they are experiences that all state-run enterprises should and can study. Not only industrial enterprises should study the basic experiences of Capital Steel, they are also worthy of being drawn upon by other trades, which should integrate them with their own reality and conscientiously study and popularize them. In particular, the cadres and the staff and workers—with their pioneering spirit of going all-out to bravely catch up with and surpass the world's advanced standards, with their morale of firmly believing that a socialist publicly owned enterprise, through its own exertions and efforts, can certainly

create economic results and efficiency that are higher than those of a capitalist enterprise—are especially worthy of study.

In studying and popularizing Capital Steel's experiences, we should uphold the principle of seeking truth from facts; integrate the experiences with the enterprise's reality; put into practice classification guidance; not be arbitrary, not have just one pattern, and not quick march; and not engage in formalism. An enterprise with a fairly strong leadership force and a fairly good working base should conscientiously study Capital Steel's experiences in deepening reform and enhancing internal management. An enterprise in which there is a certain base in management work, but in which there are fairly many difficulties in production and operations, can first study certain aspects of Capital Steel's experiences and later gradually proceed to study the other aspects.

**Review of Political Changes Before, After 4 June***91CM0382B Hong Kong CHAO LIU [TIDE] in Chinese No 49, 15 Mar 91 pp 16-18*

[Article by Xiao Xiaoming (5618 1420 2494): "Deng Xiaoping Era Political Struggles and Crises"]

[Text] This article will review characteristics of political changes on the Chinese mainland before and after 4 June, and on this basis give an outline of the characteristics of current Chinese Communist policy and its origins.

**The 4 June Incident Created Two Major Political Consequences**

Last June's Chinese Communist military suppression of the democracy movement produced two major political consequences: The first was that the general huge and independent social democratic political trend that grew out of the tolerant Deng Xiaoping reform and opening up policies disappeared under military suppression. This outcome suggests that the Chinese Communists have resisted society's demand for democratic political reforms. The second is that the Chinese Communist upper echelon reform faction personnel have been squeezed out by conservative forces. This faction's powerful supporter and the "general designer" of reform and opening up, Deng Xiaoping, also formally "retired on account of old age" and retreated to the background. These outcomes illustrate that in the present Chinese Communist upper echelon there no longer is a powerful Hu or Zhao type man of action to promote Deng Xiaoping style economic reforms and Deng Xiaoping is unable to do what he wants to do about economic reform.

Because of these two major political consequences, the Chinese Communist central leadership echelon "takes on the old look" of major retreat. Its outstanding manifestation is conservative forces establishing a conservative line, pursuing an unyielding policy of struggle, and attempting to use high pressure to control society and

maintain a one party autocratic political system. This precisely illustrates that Deng Xiaoping's economic reform line is no longer the main current or dominant at the highest decision-making and administrative levels. The "Deng Xiaoping Era" has ended or at least has arrived at its "final twilight." We might as well temporarily call mainland Chinese politics since 4 June the "Post-Deng Era."

### Party and Society Conflict and Party Infighting

In a country with a Communist Party one party dictatorship, its politics can simply be two major contradictions of crisscrossing countermoving relations. First, the Communist Party wants to maintain a one party dictatorial mode of ruling. Its basic demand is that it wants society's interests to conform to the ruling party's interests. This is the contradiction between the party and the state and society. The other is that effectively unifying society's interests is basically a question of how to effectively control society and whether or not it serves one party dictatorial stability. In a one party dictatorship, the people in society cannot have an independent voice. So, how to effectively rule society is totally subject to the highest leadership of the ruling party "having the final say" behind closed doors. Yet, in this "inner chamber" there always is diversity, argument, and contention; sometimes relaxed and sometimes intense, even "life and death."

*Power struggles can become struggles over line and struggles over line also can evolve into power struggles. In this two combined into one struggle, intra-party supremacy is the key to determining victory or defeat and "mass support" is a method that can be used in the struggle.*

Since 1949 the Chinese mainland has gone through three eras: (1) the Mao Zedong Era; (2) the Deng Xiaoping Era; and (3) the Post-Deng Xiaoping Era (characterized by transition). In these three different eras, the two major political contradictions described above have had obviously different variations. As these three eras replaced one another, the two major political contradictions emerged ever more acutely and constantly became more public. Because of this tendency to become more acute and more public, the two major political contradictions became more mutually restricting and mutually intensifying, and because of this formed a worsening cycle and a deepened crisis. In the process, *the Chinese Communists changed more and more from taking the initiative to being passive in handling relations between the party and society. Formerly relatively independent intra-party political struggles, more and more landed in a passive situation of being drawn into ever more acute contradictions between the party and society. "Society's not complying" became a crisis for Chinese Communist rule, and more and more directly affected the intra-party political struggle. No matter whether the intra-party political struggle has a "left" leaning policy or a "right" leaning*

*policy, society's demand for an independent and self-determinant political trend is irresistible and uncontrollable. Essentially the only decision is to implement reform of the system. Simply changing the manner of governing will be to no avail.*

### Contradictions in Society Complicate the Intensity of Intra-Party Struggles

In the Mao Zedong Era, generally speaking, relations between society and the party followed the model of obeying authority, that is absolute obedience of the latter to the former. This is because the former had absolute control over the latter. This was an era of the Mao Zedong personality cult and his authority was held in highest esteem, both by the higher and lower echelons, and within and outside the party. Mao Zedong used Leninist principles to establish the Communist Party and was able to "wield absolute power over" society. Mao Zedong even more used Stalinist principles to organize the state and lead it to the realization of a one party autocratic political system. So, society willingly approved the alienation of its own interests and "unification" with the "interests of the state," and wholeheartedly "obeyed Chairman Mao" and "followed the Communist Party" and "acted as the docile tool of the party." Mao Zedong persisted in the political line of using class struggle as the key link and constant revolution and dictatorship and unification of such areas as the economy, culture, science, and education. It resulted in continuous creation of natural and man-made calamities such as the widespread starvation of the three years (1959-1961) of "natural disasters" and the unjustly treated souls of the "anti-rightist" (1957) and Zhenfan (1952) movements. The people suppressed their rage at this and there was no large-scale resistance. In the Chinese Communist leadership every one who expressed the slightest dissent with Mao Zedong's extreme leftist line, under Mao's hegemony was branded an "ultra-rightist" or a "capitalist roader" and suffered an attack on his authority or even his person. For this, those being punished could only submit to "self-criticism." The ultimate expression of these politics was the ten year insanity of the "Great Cultural Revolution."

*The immediate aftereffect of the "Great Cultural Revolution" was the political legacy that Mao Zedong left the Chinese mainland. When Mao Zedong died, the society suddenly awoke from its superstition and the "rightists" in the party who had suffered repression and attack were freed from blind obedience. At this time society was headed toward the abyss of political and economic crisis and the development of the outside world had cast the Chinese mainland at least thirty years behind. The Chinese Communists endured a serious economic crisis and crisis of faith. The conflict between the interests of the party and society began to become public. How to resolve this crisis and how to maintain the Chinese Communists' legitimate ruling position set off an intense public struggle over line and a power struggle in the Chinese Communist leadership. These were the two great political legacies left by the Mao Zedong Era. From here the crisscrossing*



*intensification and worsening cycle of the two major political contradictions formed the political background for the "Deng Xiaoping Era."*

#### **The Dual-Track Political Struggle of the Deng Xiaoping Era**

After Deng Xiaoping succeeded Mao Zedong, he sought the leadership position in the Chinese Communist Party. But, this leader no longer had absolute supremacy in the party. Party, government, and military elder statesmen of the same seniority and same generation with him, especially Chen Yun [7115 0061], actually enjoyed "oversight authority" for this supreme authority. Outside the party even more, this leader was no longer the object of blind faith and adoration. So, if he wanted to acquire prestige, he had to produce results and obtain the trust of the people. *Since Deng Xiaoping did not have Mao Zedong's absolute supreme authority and did not have the mass support of Mao Zedong's god-like respect, his leadership position to a very great extent would be determined by his political achievement of stabilizing society.*

This is a contradictory period of wanting to rescue the legitimacy of the Communist Party and wanting to persist in the conservative principles of the Communist Party. It is just this contradictory period that set off the totally contradictory nature of the person of Deng Xiaoping. This contradiction has an existential basis in that Chinese society in general in this period for the most part still can only be satisfied with the modernization of economic life. So, the people still place their hopes in the new generation of communist leaders devoted to economic reform. But, this contradiction will inevitably be tragic because economic and political reform must develop simultaneously, especially in a communist country with the economic and political systems highly unified. Pursuing economic reform and not pursuing political reform leads to a deepened social crisis and society's independent democratic ideology consequently becomes stronger and the Communist Party also loses its ruling legitimacy from this.

Since the "Gang of Four" and Hua Guofeng's [5478 0948 6912] "whateverism" were defeated and the "capitalist roaders" returned to power, *politically there has not really been a division in the Chinese Communist leadership between the reform faction and the conservative faction. As with the divergent lines of the Mao Zedong Era, the Deng Xiaoping Era reform faction and conservative faction are nothing more than two tracks headed in the same direction. Moreover, there is still a common ground between the two tracks, the "four cardinal principles." One of these two tracks is Deng Xiaoping's opportunistic line, using economic reform dominated by reform and opening up to promote political stability, and the other is Chen Yun's doctrinaire line using stable economic development dominated by "birdcage economics" and "maintaining independence and keeping the initiative in one's own hands" to ensure political stability.*

The former is comparatively enlightened and flexible and the latter is comparatively conservative and rigid. Deng Xiaoping has more stakes in the game of politics than Chen Yun. So, Deng Xiaoping's line can temporarily maintain its mainstream and dominant position. But Chen Yun's power still is considerable and can act as a restraint. Moreover, he is in full readiness to take over at any time. One reason that Deng Xiaoping's line has the opportunity to be fully utilized is because society in general still has illusions about Communist Party economic reform. A second reason is that the conservative "guardians" in the same way also have illusions regarding its improving the Communist Party's legitimate ruling position. Once this illusion is shattered, Deng Xiaoping's reform and opening up cause will go bankrupt. This is the distinguishing feature of Deng Xiaoping Era dual-track politics. Developing the economy through opening up and reform is only his strategic method to rescue and consolidate the one party dictatorial political base. This dual-track politics is specifically carried out by forming another contradictory dual-tactic policy, the so-called "two main points"—persist in reform and opening up and uphold the four cardinal principles. For over 10 years, Deng Xiaoping all along has vacillated between these two tactics. In line with his—It does not matter if a cat is white or black. As long as it can catch a mouse, it is a good cat.—"cat raising philosophy," he is brave enough to risk profiteering to attempt to set up an economically prosperous scene. To counter the Hua Guofeng faction, he supported advocating "practice is the sole criterion of truth" and helped to bring about the ideological liberation movement in the theoretical realm. He stressed shifting the work focus to economic development, encouraged developing a market system, and supported bravely attacking prices.

But Deng Xiaoping, after all, is a "cat raiser." For a cat to be able to catch a mouse is one thing. For a cat to turn and bite its master's hand is another thing. When the master raises his hand and strikes the cat, he no longer considers whether that cat can catch mice. Deng Xiaoping's "opening up" has limits that cannot be exceeded. These limits are that he absolutely will not permit independence to society in general and an organized opposition party. Especially toward those who organize and carry out independent political activity, such as the earlier Xidan Democracy Wall movement, the 1986 student strike, and the 1989 democracy movement, he uses a heavy hand to suppress them and does not even spare the use of military forces to shoot down the popular masses.

#### **New Publication Reflects Influence of Peng Zhen**

91CM0382A Hong Kong CHAO LIU [TIDE]  
in Chinese No 49, 15 Mar 91 p 10

[Article by Chou Yen-ch'ing (0719 3601 3237): "Peng Zhen Very Much Involved in Beijing Municipality Starting ZHENDI"]

[Text] When Beijing intellectual circles speak privately about "anti-liberalism," it is a discussion that "distinguishes Beijing and Shanghai." This means that there is a slight difference in the strictness of Beijing's and Shanghai's "anti-liberalism" and settling of accounts after the fact. Beijing's Li Ximing [2621 6932 6900] and Chen Xitong [7115 1585 0681] "took firm control" and Shanghai's Zhu Rongji [2612 3579 1015] was inclined toward a slightly more "lenient treatment" and "forward looking" viewpoint than Li Ruihuan [2621 3843 3883]. So, Wang Ruowang [3769 5387 2598] was able to be "released on bail awaiting trial," and head of the Beijing office of SHIJIE JINGJI DAOBAO, Zhang Weiguo [1728 0251 0948] was released. In 1957 Zhu Rongji was "falsely judged," a rightist and sent down for several years of reform through labor and has felt the keen pain of the "broadening" of being corrected. So, he can show mercy today.

#### **Li Ximing and Chen Xitong Direct Start of a New Publication**

Li Ximing and Chen Xitong are "close followers" of Li Peng and have a very firm "grasp on ideology." They directed the Beijing Social Economic Development Research Institute's recent establishment of the journal ZHENDI [BATTLEFIELD], asserting that it should "do a good job of fighting a protracted war in the ideological realm against 'peaceful evolution' and in opposition to bourgeois liberalism."

After 4 June the ossified faction of the Chinese Communist Party set up many extreme leftist publications. Lin Mohan [2651 7817 3211], Liu Baiyu [0491 4101 5038], and Wei Wei [7614 1550] controlled ZHONGLIU [MIDSTREAM] and ZHENLI DE ZHUIQIU [PUR-SUIT OF TRUTH] edited by Peng Zhen's former secretary, Xu Liquan [6079 4539 5028] and Su Xiaokang's [5685 2556 1660] father Su Pei [5685 3099], both are journals whose principal content is exposure and criticism of the reform faction of intellectuals. Now, in addition, ZHENDI, in the style of Yao Wenyuan, under the ultimate control of the Beijing Municipal Party Committee, is rampant with exposure and criticism articles.

The introduction to ZHENDI, passed by Li Ximing and Chen Xitong, greatly expounds Peng Zhen's class warfare theory, saying that presently there still is proletariat and bourgeois, socialist and capitalist, and Marxist and anti-Marxist struggle, and the struggle will be protracted. It further stresses that the struggle takes the form of infiltration and anti-infiltration, subversion and anti-subversion, and peaceful evolution and anti-peaceful evolution.

The introduction claims that it will vigorously propagandize Marxist-Leninism Mao Zedong Thought and "take a clear-cut stand in criticizing bourgeois liberalism and all types of anti-Marxist thinking."

ZHENDI is a journal with a very heavy smell of political gunpowder, considerably influenced by Peng Zhen.

#### **Peng Zhen Energetically Advocates the Class Struggle Theory**

Eighty-nine year old Peng Zhen is the oldest of the Chinese Communist "four great elder statesmen," but his health is better than Deng Xiaoping's, Chen Yun's [7115 0061], and Li Xiannian's [2621 0341 1819]. Every day a qigong master releases "prolonged life." If Deng Xiaoping sees Marx first, he could play an extremely important role in Chinese Communist political circles.

Peng Zhen is presently the most vigorous ultra-leftist advocate of class warfare. He talks voluminously about bourgeois liberalism's being "the central manifestation of the present class struggle" and whether or not we oppose "peaceful evolution" being "a major life or death issue for the country's survival."

Peng Zhen in the past was for a long time the first secretary of the Chinese Communist Beijing Municipal Party Committee. Since 4 June, he has been extensively involved. He and Wang Zhen [3769 7201] both take an interest in "ideology." As honorary president of the Yan'an Spiritual Research Association, he also took an interest in Beijing Municipality "anti-liberalism." Li Ximing and Chen Xitong also have been very happy about the backing of such a person. The establishment of ZHENDI received his support.

#### **Wang Guang Succeeds Xu Weicheng, Promotes Beijing Anti-Rightism**

In addition to ZHENDI, the Beijing Municipal Committee has another party publication called XUEXI YU YANJIU [STUDY AND RESEARCH]. It also is a vengeful political journal. Recently it published a number of "anti-liberalism" articles. Among them was an article by Beijing Municipal Committee Vice Secretary Wang Guang [3769 0342] talking about "propagation of ideology." This article has now become "anti-liberalism study material" for Beijing Municipality cadres and teachers.

Wang Guang, in accordance with Peng Zhen's class warfare theory, advocates expanding "anti-liberalism." He charges that some people believe that "anti-liberalism" has been carried on for over a year and that should be "about it." He says that in the initial stage of socialism the four cardinal principles and the opposition and contention with bourgeois liberalism will be protracted. They cannot disappear in a short time, much less can we look forward to their disappearing on their own.

Wang Guang also said that we must uphold the four cardinal principles and persist in anti-liberalism for a long time. We cannot vacillate or carry them out ambiguously or equivocally. We cannot permit any change.

Beijing intellectuals generally are indifferent or disgusted with "anti-liberalism." Wang Guang's advocacy of a protracted struggle intends to change people's "war-weary" attitude. Wang Guang before 4 June was on the Beijing municipal party standing committee. After 4 June he succeeded Xu Weicheng [1776 1919 6134] as municipal party vice secretary in charge of Beijing Municipality "ideology" and has been Xu Weicheng's pawn in Beijing Municipality.



## NATIONAL AFFAIRS, POLICY

### Planning Official Views Structural Readjustment

91CE0465A Beijing JINGJI GONGZUO TONGXUN  
[ECONOMIC WORK NEWSLETTER] in Chinese  
No 24, 31 Dec 91 pp 2-4

[Article by Gui Shiyong (2710 0013 6978), deputy director of the State Planning Commission: "Structural Readjustment Is In Urgent Need of the Circumstance"]

[Excerpts] Structural readjustment, including the readjustment of industrial structure, product mix, enterprise organizational structure, and regional industrial structure, is one of the focuses of economic work at present and for a fairly long time to come. This point has been recognized by more and more party cadres, especially those in charge of economic work. [passage omitted]

Correctly Formulating and Implementing Industrial Policies Is an Important Way To Bring About the Integration of Planned Economy With Market Regulation

Structural readjustment is a major issue concerning current and future economic development. How do we readjust the economic structure rationally? Do we use the past method of high centralization, administrative means, and command plan to readjust the economic structure? Now that the economic scale is such and the structure is so complex that relying on this method alone cannot get the job done. Take investment for instance, the state can control only 20 percent. In accordance with the needs of economic development and the demands of structural readjustment, it is necessary to properly readjust the relation of distribution and centralize a certain amount of financial and material resources while developing production and improving economic returns. However, such proper centralization must not and cannot possibly follow the past road of relying completely on the state to readjust the structure in a centralized and unified manner. To do so is impossible and inappropriate. Besides, it cannot get the job done. Then should we rely completely on the market for structural readjustment? One view thinks that all the state needs to do is to control the total amount, have a good grip on the monetary and financial policies, create a necessary market environment for fair competition, and stop monopoly. This view thinks that the most effective and rational way is to let the market choose and regulate as far as the structural issue is concerned. I think that this will not work and cannot be recommended at least in China. Failing to develop socialist superiorities and exercise the function of planning in the distribution of resources can only cause grave damage. In China the development level is still fairly low, the per-capita GNP is not high, and the per-capita funds available for accumulation is limited. If such resources are scattered and controlled by the market, they will be used to establish many small businesses which engage in small-scale but comprehensive operations. And if such businesses go under due to market competition, their funds will have

to be pooled to establish businesses of greater scale. This process definitely will be very costly. It will take a very long time and cause society to become very unstable. Violent conflicts will occur in regard to social equality, stability, and efficiency. During the competition, a few people will suddenly become rich and turn into millionaires and billionaires while most people may find themselves in an impoverished state. I think that China's structural readjustment needs to rely on the integration of planned economy and market regulation. It is totally possible for the state to plan in a unified manner all major structures and the distribution of important industries. China is a newly developed country so it may use the effect of new development. This is what Lenin implied when he said that the newly developed should exceed the advanced and develop by leaps and bounds during his talk on the uneven law of development. The advantage our newly developed countries have is that we do not need to do everything from scratch and explore everything on the market. If opening to the outside world proves to be a success, we can advance on the shoulder of other countries. Take automobiles, for instance. It is totally possible for us to integrate, after comparison and discussion, good international models with China's actual conditions and choose models with better social and economic returns for production. Of course, this does not exclude market competition. Large-scale integrated circuits also do not need to be started from scratch. On the structure of such industries, it is totally possible for us to follow scientific and democratic decision-making procedures to make correct choices. In the past we planned all production and construction, even articles for everyday use. This violates the objective law. Living conditions change constantly, and many ratios and structures are to be determined by the market. If we plan everything, big and small, we are bound to stifle the economy. But when it comes to large production and construction tasks, we not only should but also can do a good job in exercising the function of planning. Market mechanism can also be applied even to the construction projects and production tasks of state policy decisions. We may invite public bidding and competition for construction projects, choose construction units, and give the job to the most efficient bidder. The state can invite tenders for even important production tasks. For instance, the specifications and tonnage requirement of steel products will be provided by the state, and the most efficient steel plant will deliver the goods according to the specified quality and timetable. This will combine state policy decisions and market mechanism. Thus, after the industrial policy is established, its implementation depends partially on direct means and partially on economic and legal means. Through the readjustment of various economic parameters such as credit, interest rates, taxes, and prices, we should encourage some projects and restrict others. Take the issue of the economy of scale for instance. The state should specify what industries and products must reach what scale or which investment fields must be closed during a given time period. Some things may be regulated by the market. For instance, the development and production

of large-scale integrated circuits should be carried out by the state in a centralized manner, but its application may be decontrolled and determined by market regulation. This road is an important way to combine the planned economy and market regulation.

Through the reform of planning system in the past few years, the command plan has been reduced substantially, but the planning commission still spends most of its time administering this part. The part that has been decontrolled is getting larger and larger, and it lacks effective guidance. We have not found a better solution. What is our way out? To re-impose control will not work and is also impossible. Maintaining the status-quo and controlling only this small part will not work either. As a matter of fact, we are losing control of this small part too. It has been under great pressure. Therefore, the major issue of the reform of the planning system is to grasp the industrial policy, adopt various measures to subject the part of market that has been decontrolled to the guidance of industrial policy, and ensure that the economy is lively, but orderly and under control, yet not stifled.

Industrial policy is the point that joins reform and development. To prevent reform and development from coming apart and overcome the notion that reform is for the sake of reform, an important joining point is the implementation of industrial policy. To formulate a correct industrial policy is to set forth demands on various reforms. Reform should render service to development. An important point is that it should serve the implementation of industrial policy. Of course it should also facilitate the overall control. For instance, the entire pricing system has been subjected to adverse regulation: Industries which need to be developed have less chance of earning profits while those which need to be controlled and developed according to state plan often have greater chance of earning great profits. How can this facilitate the rationalization of structure? Main reasons are: 1) the adverse regulation of price, and 2) the rigidity of profit mechanism resulting from the contract system. Irrational profit signals and the permanent feature of the contract system make it very difficult to carry out readjustment. This is why the pricing reform should serve the industrial policy and smooth out prices to ensure that generally everybody has the condition for engaging in a fair competition. The reform of financial system should be conducive to smoothing out the relations between the central and local governments and between the state and enterprises. The enterprise reform should be conducive to the efforts of large- and medium-sized enterprises to increase vitality and take the road of specialized coordination and integration. The reform of social security system should be conducive to the readjustment of existing funds. All reforms must be conducive to structural readjustment, and a rational structure is an important macroeconomic efficiency.

Development should rely on reform. The most basic point is that structural readjustment should look for solutions in the reform. The reason that we need to put more stress on the reform in the current stage of the

improvement and rectification campaign is that we need to do a good job in structural readjustment. To solve deeper-level problems, readjust the structure, and increase efficiency, simple administrative methods would not work. We need to deepen the reform and focus energies on establishing a correct mechanism. Therefore, judged from the angle of development, reform, and establishing a new system and operational mechanism suitable for socialist commodity economy, we all need to concentrate on formulating and implementing an industrial policy, which is also an important strategic choice for us by the end of this century.

### The Main Tasks of Current Industrial Policy Work

The work of industrial policy did not have a late start. In the past, planning included industrial plans in addition to the overall plan. However, this work was not considered really as an industrial policy and carried out conscientiously until after the reform, especially after the State Council issued the decision on the focal points of the current industrial policy. Since then all departments and localities have raised consciousness and done a great deal of work. The industrial policy has played and is still playing an important role. But as far as the situation as a whole is concerned, this is still just a beginning. We are still exploring major structural readjustment and the reform of the system as a whole. The more advanced the economy is, the more important structural readjustment will be and the more prominent the function of industrial policy and the significance of industrial policy will look.

What shall we concentrate on next?

1. The readjustment of the order of the primary and the secondary industries. The State Council's decision on the current industrial policy was based on the conditions in the past. Now it looks like that many of its contents still need to be upheld. However since economic changes have occurred and some improvement and rectification tasks have been fulfilled, some contents need to be readjusted and replenished. More importantly, we need to correctly decide which are the major pillar industries for the future in accordance with the goal of economic development strategy and possible changes in domestic and international markets. At the same time, there is also a coordination problem in implementing the insurance policy. How do we guarantee that the order of industries is observed? It involves many issues concerning a series of policies on investment, prices, credit, taxes, finance, and their coordination. We have done some work in this regard, but there are still many problems.

2. The issue of the tertiary industry. We should make great efforts to study and grasp the tertiary industry. Developing the tertiary industry has become a very important link in raising overall economic returns, providing convenience for people's daily life, reducing employment pressures, and alleviating capital and employment contradictions. Since the reform and opening up, the tertiary industry has developed fairly

quickly, and its ratio has also increased somewhat, but it still lags behind the primary and the secondary industries and remains uncoordinated. How to adopt policies and measures to speed up the development of the tertiary industry as well as enable it to develop continuously faster than the primary and the secondary industries, gradually increasing its ratio, is an important task for present and future development. A great part of the labor transferred out of rural areas in the past 10 years has been directly transferred to the secondary industry to do industrial work. Judged from the current situation, such labor should be first absorbed by rural areas to develop the range and quality of agricultural production. Second, efforts should be made to direct it to the tertiary industry. The tertiary industry requires relatively little investment. A small amount of funds can absorb a large amount of labor and create great value. Besides, it does not usually compete with industry for raw materials. Adopting various economic forms to develop the tertiary industry is an important issue that is very worth studying when changing a dual economy to a unified one in the course of our industrialization. Of course its development should be restricted by the primary and the secondary industries objectively, but its development is still not enough. The tertiary industry covers a wide area. Anything that is not the primary and the secondary industries is the tertiary industry. It includes industries of various natures and different functions ranging from science, technology, education, television, literature, arts, and geological prospecting. It is very complicated. Originally we wanted to work out a general policy on the tertiary industry. We made great efforts and exchanged ideas repeatedly with the departments concerned. Later we felt that it is very difficult to generalize it and that it may take some time. Whether or not shall we concentrate on industries that are oriented toward production and people's daily life, especially labor-intensive service industries, at present and for some time to come, and regard them as the point of breakthrough, depends on what kind of policies and measures we will adopt and how we will develop them.

3. The issues of product mix and enterprise organizational structure. Some people say that the readjustment of product mix is a transitional readjustment of industrial structure, but it often serves as a breakthrough. Using products as a guide in readjusting the organizational structure of enterprises and carrying out major technological transformation projects, thus giving an impetus to readjusting the production structure within the industry, may be a good approach. This is an important issue.

4. The issues of regionalization of industrial policy and the management of industries by classification. These two issues are interrelated. Regionalizing or localizing industrial policy and industrializing local policies may be a rational choice. Only by so doing can the state industrial policy be really implemented. Only so can there be really effective macroeconomic guidance

because industrial policies should be implemented eventually down to local and regional areas. Only so can there be really rational local industrial structures and can the economic return as a whole be increased. We can decide on a general economic plan only by combining correct industrial and regional policies. How to properly integrate the general characteristics of the national economy and the specific characteristics of local economies to develop both central and local enthusiasm is an issue really worth discussing and studying. We should ensure the presence of unified centralized leadership of the central government and the full development of local initiative.

The work of industrial policy is still new to us. Due to the lack of experience, uncoordinated systems, insufficient funds, and the wide range of involvement in the readjustment of industrial structure, there are indeed many problems. However, we must carry it through relentlessly. The work of industrial policy is very complicated. The whole industrial policy may be considered as a system engineering project. We need to make overall plans and take all factors into consideration and concentrate on a few specifics. We should have overall planning ideas as well as practical links from which to start. Our task is heavy and it involves many areas, so it is not that easy to succeed in all aspects, as our ability is limited. However, if we can proceed from the realities of all localities, concentrate on major issues, take one step at a time, march forward steadily, and continue to sum up experience, we definitely will be able to gradually improve our work standards.

#### Wu Jinglian On Economic Growth in 1990's

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[Article by Wu Jinglian (0702 2417 8834); Chen Xiaowei (7115 2556 0251), editor: "Prospects for Chinese Economic Development in the 1990's"]

[Text] 1. Beginning in 1979, China entered a new period of economic system reform and a vigorous drive for modernization. Starting with agriculture, production growth gradually accelerated. In the 10 years from 1980 to 1989, with the impetus of economic reform, economic vitality was developed. Growth greatly accelerated, economic strength clearly increased, the unemployment rate rapidly decreased, and people's standard of living generally improved. But there were quite a few problems with China's economic development. After achieving a good average annual growth of 10.1 percent in the GNP in the first eight years from 1980 through 1987, at the end of 1988, because serious inflation broke out with annual month to month retail price indices reaching 80 percent (in eight months), we shifted to economic adjustment. By the end of 1989, inflation was brought under control and in mid-1990 the economy gradually began to rebound.

2. Looking forward to the 1990s, favorable conditions for economic development are:

—Because of the foundation laid with the rapid economic growth and the huge investment of the past 10 years, China has considerable material and technological strength to promote modernization.

—With 10 years of reform, economic vitality clearly increased, especially the nonstate owned component, including rural enterprises. Not only does it occupy a considerable share of the national economy (approximately half of the value of industrial production is from the nonstate sector), but also following the year's adjustment of 1989, it has a more rational structure and its competitiveness has greatly increased.

—The policy of opening to the outside has achieved ample results. Not only has foreign trade multiplied, but various installations in the special economic zones, the open cities, and the open regions have begun to take shape and can attract a great deal of foreign investment and overseas technology.

3. But Chinese economic development in the 1990's also faces a series of difficulties. The main ones are:

—Some problems left over from the 1980's, such as the imbalance among the various sectors of the economy, serious backwardness in basic industries and the infrastructure, tight finances and investment shortfalls, steadily worsening economic performance, and economic chaos has not been fundamentally turned around.

—Some new problems will occur in the 1990's: (1) The population will be much larger than the originally forecast 1.2 billion, reaching approximately 1.3 billion. In addition, the tendency for the population structure to age will clearly increase. If we want to realize the goals for a comfortable standard of living originally set for 2000, economic growth in the 1990s will need to increase by at least another percentage point annually. (2) In the 1990's China's foreign debt repayment will enter its peak period and annual repayment of principle and interest will be approximately US \$9 billion. This will lead to China's GNP shifting from the net intake of the Seventh Five-Year Plan to a net outgo, with initial estimates of an average annual net outgo of approximately US \$1.5 billion. To make up this portion of net outgo of the GNP to realize the goal for a comfortable standard of living originally set for 2000 will require that economic growth in the 1990's increase annually by another 0.4 percentage points. (3) The worsening state of natural resources will further restrict economic development. The contradiction of the relative inadequacies of agriculture, cultivated land and water resources will become more and more pronounced: The cost of exploiting petroleum and coal will greatly increase; steel production will begin to be limited by iron mine resources; and railroad construction costs also will further increase.

4. The situation described above illustrates that the key to accomplishing in the 1990's the strategic goals of quadrupling the GNP and achieving a comfortable standard of living for the people by the end of this century is to change the current excessively low overall efficiency of the national economy and excessively high waste and realize intensive growth. Otherwise it will be difficult to reach the above goals.

5. The reason that China's present economy is a high cost economy is very deeply rooted in "ineffectiveness of the system." That is, in the ten years of reform the old administratively coordinated system has tended to disintegrate and economic vitality has increased. But while the old system has been unable to function effectively, we have been unable to systematically establish the new economic system based on market coordination. Under these circumstances, it is difficult to rationalize the structure of resource sector allocations, the structure of regional allocations, and the structure of enterprise organization, and misallocation of scarce resources and waste are quite serious. At the same time, we lack a competitive market and subordination of enterprises to upper echelon administrative control organizations remains, making it difficult for the enterprises to exercise self-determination with the "firm restraints" of competition discipline. So, it also is difficult to improve the efficiency of microeconomic operations.

The main problems in China's present economic system and policy environment are:

First, China's current economic system is a system formed from the administrative coordination of divided administrative powers and it has major defects.

—Under this system, financial revenues and expenditures, credit revenues and expenditures, and foreign exchange revenues and expenditures macroeconomic aggregate adjustment functions in the command economy as well as the market economy should be concentrated in the relevant central authority and be delegated, layer by layer, bit by bit, to each level of local government. "Government from many doors" severely weakens the macroeconomic control capabilities of the central government and the central bank and it is very difficult for them to effectively ensure the aggregate balance of the national economy and macroeconomic stability.

—Excessive transfer by government and enterprises that still do not separate central power causes "all-round contract system" units (including localities and departments) to become unified government-enterprise entities. In 1980 after the fiscal system of dividing revenues and expenditures between the central and local governments was put into effect, all localities competed with one another to set up organizations and establish their own independent industrial system and use their administrative authority and monopolies to set raw material prices too low and set up high profit processing industries, and set off an upsurge of competition with major industries for raw



materials and energy resources. Later, "small aluminum mill fever," "small oil refinery fever," and "small cotton mill fever" followed one after the other, and various "wars" contending for raw and processed materials and export commodities got bigger and bigger. Domestically they forced up the purchasing price and overseas they lowered the price to dump goods. This method of running counter to the general policy of "raise the strong points, avoid the shortcomings, and develop advantages" made all units' economies "uniform" and worsened local economic structures. At the same time, this system encouraged or forced various regions and various departments to adopt regional protectionist and departmental protectionist policies and block out other regions and departments, giving "their own" enterprises special preferences and helping them to engage in unfair competition. This created serious separation of markets and worsened the regional distribution of resources.

Second, price controls were only partially freed up and the administrative price system was maintained for commodities "in the plan." This "dual-track" pricing system created seriously distorted pricing signals.

—About one-half or more of total commodity prices continue to maintain the planned price (means of production exceed 60 percent and consumer goods are short of 50 percent). Because in the planned pricing system there is the abnormal phenomenon that the scarcer and the tighter a product the lower the price, it creates a "bottleneck" in industrial development. At the same time, it stimulates the unchecked development of processing industries with their abundant profits, wave after wave of color television fever, refrigerator fever, pop-top can fever, beer fever, and microwave oven fever. New increases in production capability are several times reasonable demands, wasting a large quantity of resources. Because of gaps in such areas as agricultural products, raw and processed materials, energy, and transportation become bigger and bigger, a large amount of production capability is unable to be used because of industrial stoppage for materials, electricity, and transportation.

—The seriously distorted pricing system causes quite a few enterprises to be unable to rely on improved management to make a profit and to seek a windfall profit from preferential pricing. At the same time, this system of adopting different prices for different people, provides fertile ground for the spread of corruption.

The third thing is delegating authority and conceding profits to enterprises in the absence of a competitive market and, at the same time, putting into effect a distribution system "linking wages to 'performance' (output value or profit and taxes)." This system cannot help enterprise managers to truly achieve autonomy, nor does it force the enterprise to strive to improve business management and pressure them to introduce technical

innovations. As a result, the phenomena of "responsibility for profits but not for losses" and "wages (including bonuses) eating into profits" occurs. The general spread of the enterprise responsibility system after 1987 not only exacerbated this tendency, but it also ossified the economic structure, causing a loss of capital liquidity and making it difficult to improve and reconstitute resources.

6. Faced with the above situation, we recommend these choices:

The first plan would be to put into effect a renewed administrative centralization and abolish the divided administrative authority system implemented in the last few years, such as the fiscal all-round contract system and the foreign trade all-round contract system and cancel the dual-track price system and increase centralized control of scarce resources and place important sectors of the national economy, the production of important products, and major investments under command planned control, using administrative means to redistribute resources, improve the structure of the national economy, and stabilize economic development.

If this method can be accomplished, it can achieve short-term economic stability, although the experience of Chinese economic development before 1979 proves that under this system technological advances and improved efficiency are rather slow, so we cannot hope to rely on it to accomplish the magnificent goals of modernization. But there still is a real difficulty. The present Chinese economy is extremely different from the 1960s and the 1970s in the following two important aspects: (1) the diversity and the complexity of the economy have greatly increased; and (2) the share of the state-owned economy is greatly reduced. In addition, it is very difficult to mesh the command planned economy with the international economy that generally adopts the market economy. So, adopting the command planned system in important sectors of the national economy would inevitably conflict with the policy of opening to the outside. Under these circumstances, it is very difficult to conceive of China adopting the command planned system as the principle system.

The second plan would be to promote market oriented reforms and abolish the "dual system" as quickly as possible and begin to establish the "socialist commodity economy," the so-called "state regulating the market and the market guiding the enterprises," economic system and while strengthening the state's overall control of the macroeconomy, to fully use market competition to overcome various current problems with economic structure and the functioning of the economy.

The inadequate demand and market slump of the present period provide an excellent opportunity for making great strides in promoting market oriented reforms. For example, under the present circumstances, the danger of gradually promoting reform of the price system that reformers have long proposed but been



unable to do because of inflation of general demand is greatly reduced. Based on price reform, reform of the tax system, reform of the fiscal system, reform of the monetary system, and the formation of markets as well as reforms reorganizing large and medium-sized state enterprises into publicly owned legal person organizations (stock companies) can proceed at a rather rapid pace. If we implement this type of reform, the Chinese economy will realize rapid structural adjustments from 1990 through 1992. Agricultural production could make rather rapid improvement and the rate of industrial growth could decline in the short-term and later rise in 1992 or 1993. Because efficiency could rather quickly improve, it would open the way for stable effective growth in the Eighth Five-Year Plan (1991-1995) and later periods.

Although several economists, including myself, firmly believe that this is the way for the Chinese economy to extricate itself from its predicament and move toward prosperity, because of ideological understanding and interest structures formed over 10 years, I am afraid that this thinking will be very difficult for people to accept.

If the two methods discussed above are not feasible, we can only select a third plan: generally maintaining the present dual planned-market system along with the fiscal all-round contract, the foreign trade all-round contract, the credit sector contract, and the department contract and enterprise contract systems, changing it only in the following few respects: (1) appropriately increasing the power of the central administrative authorities and planning organizations and increasing the share of the command plan; and (2) making some adjustments in certain prices that are too irrational and making some revisions in contract base figures and improving some contracting methods.

Perhaps it would be politically desirable, to adopt this general policy. But it is difficult to solve the present problems in the Chinese economy in this way. If we continue to maintain the tight macroeconomic policy, the economy will not be able to pick up greatly in the mid-term. If we adopt relaxed monetary controls to stimulate economic resurgence, it also is very easy for a new round of expansion—inflation—contraction—depression fluctuations to occur.

7. If the preceding analysis is correct, we can draw the following conclusions:

In the decade of the 1980s, because Chinese leaders carried out highly effective economic reforms and adopted a correct economic policy, the Chinese economy progressed by leaps and bounds and laid a good foundation for further development in the 1990's. But, at the same time, some problems also remain that urgently need to be solved.

In the first year of the 1990's, the first stage goal of Chinese economic adjustment, restraining the overheated economy and overly brisk demand and reducing the rate of inflation, has generally been accomplished.

But deep-seated economic problems such as systemic ineffectiveness and excessively low efficiency have generally not been solved. So, present Chinese economic policy is faced with major decisions. Whether these decisions are correct or not will affect development throughout the 1990's.

—China's present economic conditions greatly promote market oriented reforms. But, because of market understanding and other reasons, this thought still cannot gain the agreement and acceptance of the majority and there is a tendency to implement administrative recentralization

Where administrative recentralization cannot be implemented, most people could be inclined generally to maintain the economic control system developed in the last few years and appropriately strengthen the command plan, and appropriately adjust such economic parameters as prices and exchange rates. If we adopt this type of policy orientation, generally speaking, the economy will maintain a low rate of growth and rather large inflationary and recessionary fluctuations. Moreover, if we do this, difficulties in such aspects as raising employment and the standard of living and further promoting the policy of opening to the outside and introducing foreign investment and repaying foreign debt could be exacerbated.

To solve the long-term chronic maladies of the Chinese economy's slow technical progress and low economic returns, and promote modernization and realize the goal of becoming a medium-developed country by the middle of the next century, we must promote fundamental reform of the economic system, and rather quickly establish a socialist commodity economy with "the state regulating the market and the market guiding the enterprises," also called a regulated market economy system. In future development, we could have more and more economic experts and leaders recognize this point, so that a new situation of reform and opening up can occur.

#### Journal Article Reviews 1990 Macroeconomy

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[Article by Jiang Xiaowei (3068 2556 5633) of the Comprehensive Department of National Economy, State Planning Commission, edited by Lu Yang (6424 7122): "Analysis of China's Macroeconomy in 1990"]

[Text] Economic growth is the comprehensive result of a year's economic operations. This article will attempt to use a simple, straightforward writing style to emphasize making an analysis of the trend of the developments of China's actual economic growth in 1990, determining the relevant factors affecting growth, drawing a picture of the general framework of economic operations, and estimating the changes in economic growth in 1991. The special features of China's economic growth in 1990 were: a gradual shift from the economic fluctuations in the first half year to a sustained growth in the second half

year. These changes were principally influenced by the factors such as consumption and investment demand changing from tightness to laxity, sustained growth in export, loosening of the money market, increase in loan input, and so forth. The economic growth in 1990 reflects the result of the comprehensive role of many factors.

### I. Special Features of Economic Growth in 1990

Economic changes in 1990 grew from fluctuations to gradually shifting to a sustained growth. The whole year's industrial gross output value amounted to 1,373.46 billion yuan, an increase over the same period of the preceding year by six percent (not including industries of the village level and below). The curve of the economic trend showed the following changes: The turning point was in June and July, fluctuations in the first half year, and a sustained rise in the second half year. Hence, January to June consisted of the fluctuation period in growth while July to December marked the recovery and rise period of the growth.

A. Special features of the growth fluctuation period: From January to June, the industrial gross output value amounted to 653.69 billion yuan, an increase of 2.2 percent over the corresponding period of the preceding year. 1) Growth trend. In the first quarter, the scale of the fluctuations in industry was rather great. Comparing the industrial gross output value in the various months with the corresponding month in the preceding year, in January it dropped by 6.1 percent, in February it rose by 5.56 percent, and in March rose by 1.43 percent; in the second quarter, it wavered at a low speed, that is, a rise of 1.98 percent in April, rise of 4.22 percent in May, and rise of 5.86 percent in June. The disparity between the highest and lowest points in the economy in the first half year was 11.96 percent. For the growth rate to reach the highest level in the first period, it took four full months, that is, in June the growth of 5.86 percent was realized and the growth's highest level was reached in February. 2) The frequency rate in light industry's growth fluctuations is higher than that in heavy industry. The mean square deviation reflecting the economic fluctuation extent in the first half year was 5.165 for light industry and 2.953 for heavy industry, showing that it was obviously smaller in heavy industry than in light industry. If we deduct the incomparative factors formed by the dissimilarity in the averages taken for the two, then seen from the dispersal coefficient, light industry was  $V = 2.406$  and heavy industry,  $V = 1.336$ . The dispersal coefficient of light industry was higher than that of heavy industry by 1.06 percent. The main support of heavy industry's growth was energy and raw materials production; in the first half year, compared with the corresponding period of the preceding year, electric power generation increased by 6.3 percent, raw coal production increased by 6.1 percent, and steel materials increased by 9.0 percent. 3) Industry under the system of ownership by the whole people grew at a low speed, but the fluctuations were relatively small; whereas in the case of collectives, particularly the village-run industries, they

gradually began to climb the slope only after a large rise and a large fall. In the first half year, the lowest ebb in the growth of industries owned by the whole people was a fall of 6.5 percent, while the fall in the collective industries was 7.13 percent. The disparity between the highest point and lowest point in the growth of industries owned by the whole people was 10.6 percent, and in the collective industries, 12.7 percent. This was because in the retrenchment and depression, industries owned by the whole people were more protected by state policies. The fluctuations were most violent in the township and town industries. According to a survey by Jiangsu Province, in 1989, the growth of village-run industries in the province was 2.4 percent which, compared with the 26.6 percent growth in the corresponding period of the preceding year, registered a drop of 24.2 percent. In 1990, it began to recover and rise and by August the growth speed was eight percent. In the whole province, over 3,500 township and town enterprises were suspended or closed, and over 1,000 such enterprises were merged or converted to other production lines. The changes in the growth rate of industries under different ownership systems showed that among the industries owned by the whole people and those by the collectives, the former provided the relatively larger promotional force for the economic growth. From January to June, industry's gross output value increased by 2.2 percent, of which industries owned by the whole people contributed 0.31 percent and industries owned by the collectives contributed 0.26 percent. On the other hand, economic growth in the first half of the year was principally affected by fluctuations of light industry and collective industries.

B. Characteristics of growth's recovery and increase period: From July to December the industrial gross output value amounted to 719.77 billion yuan, an increase of 9.7 percent over the corresponding period of the preceding year. 1) Trend of growth. The respective increases of the various months over the corresponding months of the preceding year were: July, 2.94 percent; August, 4.6 percent; September, 7.5 percent; October, 12.7 percent; November, 15 percent; and December, 14.8 percent. The monthly increases showed a steadily accelerated trend. 2) Light industry played the leading role in the industrial growth. Beginning from July, light industry shifted from the alternate increase with heavy industry in the first half year to departing from the curve of growth of the whole industry, and rapidly recovered and rose, its growth span being higher than that of heavy industry and that of the industrial gross output value. It is found from an analysis that from July to December the related coefficient between light industry and industrial gross output value was  $R^2=0.9754$  and that between heavy industry and industrial gross output value was  $R^2=0.9632$ . That former exceeded the latter showed that in the economic growth in the second half year, contribution from light industry's growth was relatively larger. Related to this, the role played by collective industries which occupied the major portion of the light processing industry was strengthened in pushing economic growth. Of the growth of 9.7 percent in the industrial output

value in the second half year, the contribution degree of collective industries was 4.3 percent whereas that of industries owned by the whole people was 3.2 percent. At the same time, a portion of the energy and raw materials industries showed a drop in production. 3) In this year's economic growth, other types of industries which are mainly partially or wholly foreign-owned did not suffer from any effects from the economic readjustment of the external environment. They showed the trend of self-development and rapid growth. This year their cumulative output value amounted to 83.9 billion yuan, an increase of 42.8 percent over the preceding year; but because they occupied a relatively small portion of the absolute amount of the industrial gross output value, their effects on the whole industrial growth were relatively small. It can thus be seen that economic growth in the second half year was principally pulled and activated by the recovery and rise of light industry and collective industries.

Summarizing the above, the economic growth in 1990 was principally affected by the changes in the growth of light industry and collective industries. In comparison with this, heavy industry and industries owned by the whole people were in a relatively stable state, and this was the result of government adopting a leaning policy to support the growth of the energy and raw materials industries in the economic readjustment. Because of this, it made heavy industry and industries owned by the whole people play a definite supporting role to growth at a time of economic fluctuations and caused the revival and rise of the economy to lack stamina. However, as a whole, the economy in 1990 did gradually attain stable growth.

## II. Causes of Economic Growth in 1990

A. Domestic demand. Domestic demand may be divided into the two portions of consumption demand and investment demand.

Analysis of consumption demand. In 1990, the commodity retail sales volume of entire society amounted to 825.46 billion yuan, an increase of 1.9 percent over the preceding year. Seen from the curve showing changes in commodity sales volume, the consumption market was in a state of steady and slow rise and despite that the sales volume in the first half year was lower than the corresponding period of the preceding year, being a negative rise, the monthly link ratio [huanbi 3883 3024] basically showed a positive increase. It showed that the special feature of the 1990 consumption market was that in the course of its steady revival and rise it gradually proceeded to normalcy. (See Table 1)

**Table 1. Monthly growth of social commodity retail sales volume**

Month	(Unit: Percent)	
	Comparison: this month with same month preceding year	Growth in monthly link ratio after eliminating seasonal fluctuations
1	1.3	4.76
2	-5.6	-2.58
3	-4.9	2.56
4	-3.3	0.72
5	-0.5	1.90
6	1.4	-0.50
7	1.2	0.00
8	1.9	0.03
9	3.6	0.48
10	7.4	3.18
11	10.3	2.24
12	10.3	—

The principal factor affecting consumption market changes is consumption outlay which again can be split into such factors as consumer's income, interest rate, commodity price level, and price anticipation. 1) Effects of income on consumption outlay. In China, the main source of income of staff members and workers consists of salary, wages and bonus. From an analysis of the salary and wage income, in 1990 movements in the salaries and wages of staff members and workers showed a vertically upward rising trend. (See Table 2)

**Table 2. Monthly Movements of Salaries, Wages, Bonuses, and Social Commodity Retail Sales Volume in 1990**

Month	(Unit: Percent)		
	Salaries & Wages	Bonus	Commodity retail sales volume
1	5.6	14.2	1.3
2	16.6	-8.0	-5.6
3	11.8	-1.5	-4.9
4	14.2	-1.2	-3.3
5	14.5	-2.5	-0.5
6	17.2	-0.1	1.4
7	18.0	3.6	1.2
8	19.9	4.7	1.9
9	23.7	12.0	3.6
10	22.7	11.7	7.4
11	27.0	15.6	10.3
12	22.5	22.1	10.3

Notes: (1) Monthly growth is in comparison with same period of preceding year. (2) Salaries, wages & bonus from China Central Bank's data; commodity sales volume data from statistical bureau.

The rise was neither restrained by the retrenchment in demand nor affected by the fluctuations in economic growth. According to statistics, in 1990 the bank's statistics on outlay for salaries and wages increased by 17.7 percent over the corresponding period of the preceding year, which was far higher than the growth rate of industry and the labor productivity rate for the same period. This prominently demonstrated the stiff character of China's salaries and wages at the present moment. However, salary and wage increases did not correspondingly activate the consumption market, since while the banking statistics of salaries and wages in the first half year showed an increase of 17.2 percent over the corresponding period of the preceding year, the social commodity sales volume dropped by 1.9 percent. This showed that increase in salaries and wages was not the main factor for changes in the consumption market. Analyzing the bonus income, it is found that in 1990 changes in bonus outlay and the consumption market were basically the same. Beginning from July, the banks' statistics showed an increasing trend in increase in bonus outlay and at the same time the social commodity retail sales volume likewise reverted from the fall in the corresponding period of the preceding year to a rise. It can thus be seen that in the second half year the recovery and rise in market sales more relied on the pulling force of bonus and other incomes outside of salaries and wages.

2) Effects of interest rate on consumption outlay. In 1990, deposit interest rate was adjusted downward. This stimulated end demand and achieved certain results in this respect. After July, urban residents' marginal savings showed a tendency to fall each month; the index from January to June was 1.69, but from July to December it dropped to 0.33 and the portion of income converted into consumption was expanded.

3) Effects of laxity of the purchasing power of social groups on market consumption. In June, control of the purchasing power of social groups was loosened, the purchasing power of the social groups was increased and from July to December the social groups' consumption sales volume increased by 11.9 percent over the corresponding period of the preceding year whereas in the first half year it dropped by three percent.

4) Rise in commodity prices and stability in price anticipation. In 1990, the rise of commodity prices still stood at a relatively low level; from January to November the retail sales commodity price index of 35 medium-sized and large cities was 2.2 percent and while the state readjusted a portion of the consumer goods prices, there were no relatively large effects on market sales; on the part of the consumers, their psychology toward anticipated prices was relatively stale.

5) The stagnation effects of crash buying in 1988 were somewhat reduced and the enterprises, suiting the changes in market demand, produced certain new products for input into the market. In short, in the first half year, as a result of the lowering of the growth scale of the bonuses to staff members and workers, control of the purchasing power of the social groups, and the residents' savings habits tending to increase, the growth in market consumption somewhat slowed down. Beginning in July, because of the gradual increase in bonus, loosening of the

purchasing power of the social groups as well as the residents' savings tendency showing a downturn, a plentiful harvest in grain, raising of the purchase price of cotton, rise in the peasants' income, development of new products, and so forth, in the second half year the consumption market was loosened and particularly beginning in the fourth quarter of the year its growth span was accelerated. From an analysis of the relations between the consumption market and changes in industrial growth rate and with due consideration of China's current industrial structure in which changes in the social commodity retail sales volume mainly affect the growth of the light industry, it may be said that in the first half year the fall in consumption outlay had little pulling effect on the market and the growth rate of industry suffered from rather large fluctuations because of the insufficiency in end demand, and that in the second half year the increase in consumption outlay pulled and set in motion the market and this was transferred to the light industry, leading to light industry's recovery and rise.

Analysis of the investment demand. In 1990, the gross volume of investment demand was increased and for the whole year fixed assets investments under the system of ownership by the whole people amounted to 292 billion yuan, an increase of 7.9 percent over the preceding year.

1) Rather large fluctuations in investment and signs of the changes being irregular and unregulated. Instability in investment caused difficulty on the part of the equipment-producing enterprises to forecast production of the investment goods and weakened the pulling power over the growth of the economy.

2) Continuous cutting down of capital construction investment, particularly the large-scale reduction of the projects which had started construction in 1989, affected the placement of orders for industrial products in 1990. At the same time, 1990's newly increased capital construction investments, because of definite stagnation or deferred period, had limited promotional power on the year's economy.

3) Increase in technical transformation investments. However, China's industrial structure is irrational and the products' replacement functions are rather weak. Heavy industry's main products are generally coordinated with capital construction, the self-regulated functions of the products are rather weak and the increase in technical transformation investments cannot produce too large effects on the current heavy industry products. Thus, under the loose investment conditions in 1990 there was no obvious change in the production of the heavy processing industry and the production volume of the products showed a sustained fall. In the whole year, the output volume of alternating current electrical machines dropped by 10.4 percent, fall in the output of industrial furnaces and boilers was 30.3 percent while that of metal-cutting lathes was 28.7 percent. All this made heavy industry's growth span clearly slower than that of light industry in the recovery and rising period of the growth of the economy.

From the above analysis, it can be seen that in 1990 economic growth, consumption demand exerted a larger degree of influence than investment demand.

B. Development and operation of loans. In 1990, through the development and operation of loans, economic development was rather outstanding. This was because of a choice forced upon the government whose macroeconomic target was principally to ensure and protect employment and which suffered from the pressure of having the ease the state of the enterprises not operating sufficiently or stopping or semi-stopping production. In 1990, bank loans increased by 47.5 percent over the preceding year. The line followed in the development of loans was the input of circulating funds to the enterprises to start production in motion. From January to June, the amount of loans for industrial circulating funds showed an increase of 130 percent over the corresponding period of the preceding year, and occupied 90 percent of the increased volume of circulating fund loans for the same period. Despite the large input, the results obtained were disappointing. Because of the slackening of the sale of products, a large quantity of finished products had to be stored in the warehouse. Seen from the operations of state-run enterprises included in the budget, for several months the receipts from sales were lower than the growth in output value, thus resulting in an extreme instability in production growth. Subsequently, a shift was made to development and operation of commercial circulating funds. In the second half year, loans for commercial circulating funds increased by 29.6 percent over the corresponding period of the preceding year. Deducting the loans for purchasing of agricultural and sideline products, the increased volume of loans rose from 3.3 percent of the increased volume of circulating fund loans in the first half year to 14.6 percent in the second half year. This in essence was the shifting from industrial warehousing or storage to commercial storage and the aggregate social storage was by no means reduced, but gave to the suppliers the wrong signal of a market demand, and thus further increased production. In the second half year, the industrial growth was 9.7 percent, from July to December in domestic trade net purchases increased by 9.5 percent, domestic net sales increased by 6.4 percent, and the relations between the two changed from the net sales being larger than the net purchases in the first half year to net sales being smaller than net purchases in the second half year. This is to say, the increase in the purchase of a portion of the commodities was not due to market sales but was to reduce industrial stockpiling and to increase the commercial storage. At the end of December, commercial storages increased by 12 percent over the corresponding period of the preceding year. Seen at different periods, up to the end of June in the first half year the increase over the corresponding period of the preceding year was 12 percent and by December in the second half year the increase over the corresponding period of the preceding year was 12.2 percent of which the stockpiling in domestic trade increased by 20.7 percent while that in external trade fell. From this it can be seen that the

large-scale increase in commercial stockpiling (principally because of an increase in stockpiling in domestic trade) explained that industrial growth was pulled by commercial stockpiling, that is, commercial loans. Hence, in the second half year, pulling by demand and stimulating by loans concurrently played a role in causing the revival of the economic growth, loans were in revolving operation in the intermediate stage of social reproduction, their partial increase in supply was noneffective, and the entire economy was not operating smoothly.

C. External demand. External demand in setting the economy in operation was mainly manifested in the following: 1) In 1990, other types and categories of industries with the "three capital sources" enterprises as the center achieved a sustained growth and for the whole year attained a growth speed of 42.8 percent, pushing a rise of 1.93 percent in the industry. 2) Inward purchases in foreign trade increased, from January to December inward purchases in foreign trade increased by 12.9 percent over the preceding year, particularly in the first half year, the domestic markets were in a state of depression, purchases by industries in domestic trade dropped, purchases by industries in foreign trade increased on a large scale, and from January to June it increased by 21.4 percent over the preceding year. 3) A large-scale increase in exports. According to maritime customs statistics, from January to December, exports amounted to \$62.07 billion, an increase of 18.1 percent over the corresponding period of the preceding year. Under the conditions of the limited increase in domestic consumption demand and fluctuations in investment demand, the increase in exports played a definite role in pushing economic growth. But increase in external demand principally depressed and cut down domestic demand, the state's lowering of the exchange rate stimulated exports and portion of the supply capacity was shifted abroad. This was a special cause affecting economic growth in 1990.

D. Supply readjustment. Because of the restrictions of the existing economic structure, depressing demand has a limited capacity in effectively readjusting capital's existing volume. Reducing the gross volume of demand makes the actual production volume needed by the economy smaller than the possible production volume provided by capital's existing volume and with the excess production capacity remaining intact and stagnated in the economic operations, naturally the enterprises do not operate sufficiently and the production capacity stays idle. The actual economic operations are caused by the relatively strong force in depressing demand and the excessively slow readjustment of supply.

The 1990 economic growth was the result of the combined role played by various factors in the course of operation. In spite of the fact that we have left behind the spectres of economic low-speed growth and fluctuations, yet seen from the gross volume, the economic growth surpassed the bearing ability of demand. This may be



traced to the deviations in our thought and understanding, being overly concerned with economic growth, overlooking the gross balancing of the national economy, and thereby causing economic growth to depart from the realistic operational environment of macroeconomic retrenchment and producing a portion of fallacious growth.

### III. Economic Trend, Countermeasures in 1991

A. Trend of economic growth in 1991. Economic growth being steady but accelerated. First, affected by the 1990 economic growth and the lowering of the enterprises' economic effects, the growth span of consumption receipts will be limited, but the residents' consumption trend will be elevated and market growth will be expedited (no appearance of relatively large fluctuations). Second, investments will produce production capacity effects and demand effects. In 1989 and 1990, the growth of fixed assets investments slackened and a limited supply capacity was formed. In 1991, investments, on the one hand, will be subjected to the restriction or limitation of funds: 1) the 1990 economic operations affected the state's financial receipts and at a time of the country currently facing the dual tasks of construction and feeding the population, input of investment funds will be limited. 2) Bank loans are determined by the source of funds. At present, savings occupy an increasingly large ratio of the source of the banks' funds, the degree of the relationship between the banks' funds and the income for consumption is strengthened, and in 1991 increase in the banks' funds will be affected by changes in the residents' income and the direction of consumption. At the same time, the increase in the cost and risks of the operation of funds will increase the banks' caution in the use of funds. But on the other hand, the effects of the stagnation and delay of the increased investments in 1990 and the increase in the self-raised funds of the localities will play a definite promotional role in economic growth. Judging from the current economic structure and operations, of this seesawing of effects, the latter will play a decisive role on the economic growth. Seen from the angle of consumption and investment, in 1991 the fluctuations in economic growth will likely be smaller than in 1990 and, besides, the growth span will be enlarged and the speed accelerated.

B. Changes in economic growth structure. According to an analysis of the factors affecting economic growth in 1990, residents' income was the principal factor pushing light industry's growth. This was first seen in the growth changes at the end of 1990. The growth of light industry was gradually speeded up and particularly in the case of durable consumer goods, color television sets, and refrigerators for household use, their production began to recover and rise. In China's current industrial structure, between the products the replacement capability is relatively weak, the two ends of the industrial structure do not link up, and residents' income plays only the role of pushing the development of light industry. With the limited increase in fixed assets investments, production growth of such products as energy and raw materials was

slackened and the current condition of the increase in the stockpiling of foundation products only reflected the result of depressed demand. Following the changes in the growth of light industry and heavy industry and the speeding up of the growth trend of collective industries and village-run industries, the original irrational structure may reappear. Naturally, for the rational growth of the economy in 1991, the more important determining factor is macroeconomy's ability in adjusting and controlling the economy and this principally is controlling the gross volume of bank loans, the purchasing power of social groups, the growth span of the bonus income of the staff members and workers and fixed assets investments outside the budget. This has been verified in the actual practice in economic readjustment in the past two years.

Making an analysis of the current economy, our choice of a countermeasure should be a combination of solving the problems of realizing economic development and setting up an economic operational mechanism.

1. Readjusting supply and dividing the channels of consumption. When a developing country wishes to shake off its economic backwardness and realize the strategic objective of economic development, the flying start of the economy will inevitably generate the contradictions of a prolonged period of demand inflation and insufficient supply. To solve the contradiction between supply and demand, controlling demand is only a short-term measure and it is necessary, from the long-range angle, to solve effective supply. Therefore, concurrently with depressing demand, the major points of the macroeconomic policy should be, through augmenting the industrial policy, enforcing the readjustment of the supply structure, establishing a social security system, widening the consumption scope of the workers, dividing the channels of flow of the existing volume of consumption, and easing the pressure force of centralized consumption on supply.

2. Strengthening economic control. With the pushing of reform of the economic structure, and the disintegration of the traditional planning structure, the structural balance has been broken the systematic and integrated character of the structure has been lowered and confusion has reigned in the economic relations. Nondetermination of the various economic factors in the structural reform has increased the difficulties of control and posed even higher demands on control. The target, method, and measures of traditional control should follow and be improved but the idea and role of control are all the more important. In China's current stage, strengthening economic control is the condition for protecting economic operation and reform of the economic structure and is the key to enhancing economic effects and economic quality. Hence, at present we should earnestly place strengthening of economic control in the first position.

3. The basic road out of the dilemma for the national economy is deepening reform of the economic structure. At present, we should principally strengthen the study of

the reform target and procedure and carry out comprehensive planning for the reform. Reform is the establishment of a sort of operational mechanism to provide life and vitality to economic development. In the course of economic readjustment, reform should all the more be linked up with economic development, such as establishing a social security system and making society's constituents bear more responsibilities for their own survival such as employment, housing, medicare, and retirement, thereby creating the conditions for the rational flow of resources and readjustment of the industrial structure. At the same time, it is necessary to systematically push the reform of enterprise, price, and investment structures.

### State Council Issues Guidelines on Economic Restructuring

91CE0447A ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA'S ECONOMIC STRUCTURE REFORM]  
in Chinese No 2, 23 Feb 91 p 7

[Article by Staff Reporter]

[Text] According to reliable sources, the office of the State Council has recently issued an order based on policy guidelines provided by the State Council leadership, to reinforce the coordinating function of the State Commission on Economic Structure Reform. It states: "For reform to keep pace with actual conditions, and to avoid dislocation and friction, further reinforcement of the coordinating function of the State Commission on Economic Structure Reform is necessary."

Following a deepening of reform in China's economic structure, the proper coordination of various plans and measures for reform on the town and village levels have become increasingly sophisticated. Therefore, this circular is reiterating the fact that the State Commission on Economic Structure Reform is the State Council's functioning arm charged with overall planning to coordinate reform in the economic structure. Its primary role is responsibility for an overall draft and plan to coordinate economic reform activities on town and village levels, and to move enterprise reform forward by setting up pilot projects to promote these measures. Its actual responsibilities include the following:

Drafting an overall nationwide plan for reforms in the economic structure for the mid and long term with yearly updates. Such drafts and plans are first studied by the commission who will suggest guiding principles and a general outline, and on the basis of this study, related organs in the State Council will propose initial drafts and plans for reform in their own agencies. This is coordinated by the commission to be implemented in the overall plan after input from various localities. After further discussion and approval by the commission, this is reported to the State Council for final approval and implementation.

Coordinating and implementing reform plans drafted by various agencies and occupations that have national

implications. Except for those plans that have to be examined directly by the Central Committee of the CPC and the State Council, related agencies should first send their drafts and plans to the commission who will see if their reform plans impinge on each other, and coordinate them. The agencies concerned then submit their drafted plans, together with comments from the commission, to the State Council for approval, after which they carry out their implementation. Should serious problems arise during implementation, the commission will provide further coordination.

Consulting on drafts and plans for large and important reform pilot projects of an overall nature, and providing guidance and coordination for their implementation. Such pilot projects may be proposed by the commission, related agencies under the State Council, related local governments on level of the province, autonomous region, municipalities under direct control of the central government, or planned independent municipalities governments, whereupon all parties concerned discuss and agree upon a plan for submission to the State Council for approval. After this, the local governments or agencies in charge are to implement the plan in coordination with other agencies concerned, with guidance and coordination provided by the commission.

As the overall task and responsibility assumed by the commission is great, and many important problems require agency coordination, the committee system is employed. Composition of the committee, apart from the director and deputy director of the commission and a few specialists who are committee members, include representatives from the State Planning Commission, the Ministry of Finance, the People's Bank, the Production Committee of the State Council, the Ministry of Labor, and the State Office of Commodity Price Control who are assigned responsibility for reform work in addition to their primary roles. The committee is responsible for important problems encountered during evaluation of reforms in the economic structure by smoothing out the rough spots and offering suggestions on the State Council's decisions.

### Case Study of Industrial Enterprise Problems

91CE0486A Taiyuan JINGJI WENTI [ECONOMIC PROBLEMS] in Chinese No 2, Feb 91 pp 20-21

[Article by Xue Huichun (5641 1979 2797), He Ruilin (6320 3843 2651), and Du Xuejin (2629 1331 6651): "Where Are Enterprise Operating Funds 'Flowing?']

[Text] Funds are the "blood" of an enterprise. The current shortage of funds seriously confounds the normal movement of an enterprise's production development and its operations. On the one hand, banks have poured in a large amount of loans; on the other hand, the enterprises' cries for funds have become louder and louder. Therefore, we took up this issue, and investigated and analyzed the prevalent, existing problems and causes

in the structure of operating funds of 12 state-run industrial enterprises in Taiyuan City.

Of these 12 state-run industrial enterprises, four are light industry, three are textile, two are machinery, and one each is electronics, coal, and building materials enterprises. At the end of June 1990, the total value of operating funds in the 12 state-run industrial enterprises was 362.28 million yuan, a 9.09 percent increase over the same period in 1989. The value of bank loans was 232.16 million yuan, a 4.91 percent increase over the same period in 1989. Under the circumstances in which all operating funds were used and bank loans increased, enterprises' output value, sales, and profits were respectively 4.91, 18.45, and 124.48 percent lower than the same period in 1989. The abovementioned results show that, while liquid assets and bank loans have increased, there was a negative growth in the enterprises' output value, sales, and profits. Under the circumstances in which the growth rate of bank loans is far higher than the growth rate of output value, why is the enterprises' demand for funds expanding day by day? Exactly where are the enterprises' operating funds going?

First, from the surface-layer flow of operating funds, we see: (1) The funds' share structure is irrational and a large amount of products are overstocked. At the end of June 1990 in the 12 state-run industrial enterprises, funds for finished goods accounted for 156.22 million yuan, 65.18 percent of the quota working capital and a 91.6 percent growth over that of the same period in 1989. The serious overstocking by enterprises took a large amount of their operating funds and had a direct adverse effect on their normal reproduction. For example, at the end of June 1990 in the Shanxi Radio Factory, funds used for finished products were 100.21 million yuan, 78.79 percent of the liquid assets quota, and a 290 percent increase over the same period in 1989. (2) The debt chain is difficult to break, and receivable advance-payment loans are increasing, not decreasing. At the end of June 1990, receivable advance-payment loans used was 49.7 million yuan, 57.38 percent of the nonquota funds, and a 94.83 percent increase over the same period in 1989. For example, by the end of June 1990 the Taiyuan No 1 Woolen Mill had 28.25 million yuan in receivable advance-payment loans, an increase of 360 percent over the same period in 1989. (3) Enterprise losses divert and use up operating funds. By the end of June 1990, the 12 state-run industrial enterprises had incurred a total loss of 6.77 million yuan. For example, in the first half of 1990 the Shanxi Machinery Plant incurred a total loss of 4.4 million yuan. (4) There is over-expenditure on the special-purpose fund, and expenditure and income cannot be balanced. The over-expenditure on the special-purpose fund diverts the normal production funds. For example, at the beginning of the year the Taiyuan No 1 Woolen Mill had a deficit of 2.23 million yuan. In the period from January to June 1990, it recovered 780,000 yuan but in the same period paid out 820,000 yuan, and by the end of June its deficit was 3.2 million yuan.

On the other hand, viewing operating funds at a deeper level, part of the operating funds is quietly lost forever because of potential losses and deficits in production and operational links. According to the survey of the 12 state-run industrial enterprises taken at the end of June 1990, their potential deficits and losses totaled 30.0977 million yuan, 9.22 percent, the highest 11.26 percent, of their operating funds. It may be said that 10 percent or more of the enterprises' funds was lost. Of the potential deficits and losses, the reserves link accounted for 6.6 percent, the finished product link for 53.56 percent, and the operational link for 32.41 percent. For example, in the Zhongyuan Glass Factory, by the end of June 1990 the potential deficits and losses totaled 4.4024 million yuan, 41.87 percent of its operating funds, of which the production link accounted for 7.8 percent, the finished product link for 25.69 percent, and the operational link for 8.18 percent.

From the abovementioned situation, we clearly see the reasons for the enterprises' use and shortage of funds. So why is an enterprise's operating funds clogged at the surface level and lost at a deeper level?

1. The market "slump" slows the turnaround of an enterprise's operating funds.

Because of the irrational product mix brought about by the overheating of the economy in recent years, and the current "retrenchment" policy of improvement and rectification, the lag nature of the market "slump" is reflected more prominently. In an enterprise it is reflected in a sharp increase in the use of funds, a drop in sales income, a serious overstocking of products, and a gradual increase in funds receivable. The survey of the 12 state-run industrial enterprises showed that the average use of funds increased 54.3 percent over the same period in 1989, and that sales income decreased 17.11 percent from the same period in 1989. The enterprises' turnaround of operating funds tended to slow down, being 271 days compared with the number of days of the same period in 1989; and the turnaround of quota operating funds slowed to 153 days. This situation was prominently manifested in the serious overstocking of finished products funds and in the monthly increasing loans receivable, with the finished products funds and the loan receivable respectively increasing 97.92 and 94.82 percent compared with the figures of the same period in 1989.

2. "Poor" management causes blindness in an enterprise's production and many flaws in its operational link.

It may be said that at present the management level of many enterprises in China falls far short of the level required by the numerous, complicated market changes, and the enterprises' blind production causes a large amount of products to be overstocked and causes a loss of sales. As of the end of June in the 12 enterprises, lowered prices had caused a loss of 4.31 million yuan, the scrapping of overstocked products had caused a loss of 465,000 yuan, storage damage had caused a loss of

236,200 yuan, and there were 3.4016 million yuan in bad debts on loans receivable. For example, in the Zhongyuan Glass Factory 7.54 million machine-embossed cups were produced last year, with a value calculated at 3.58 million yuan. Almost all of them remained in stock, and the factory was forced to lower the price to sell them, thereby taking a loss of 1.09 million yuan. Also, for example, for many reasons in the management aspect of the operational link, the Taiyuan No 1 Woolen Mill had 2.61 million yuan in bad debts on loans receivable, accounting for 9.24 percent of the receivable advance-payment loans.

3. "Two price differentials" causes enterprise cost inversion.

In recent years some capital goods have entered the market. Because China has adopted the policy of lowering the price on consumer goods, there is bound to be formed a price structure in which articles go into production at a high price and come out of production at a low price, the so-called "two price differentials." According to statistics, at the end of June the cost inversion of the 12 state-run industrial enterprises amounted to 9.5907 million yuan. For example, the cost inversion of the Shandong Radio Factory was 2.126 million yuan. On the other hand, the rise in the prices of raw materials is bound to take up a large share of the funds. According to statistics, in the 12 state-run industrial enterprises about 20 percent of their funds was taken up by price rises.

4. The lag in technological transformation causes the product mix of an enterprise to be irrational.

According to statistics, 35 products, or about 80 percent of products, in the 12 state-run industrial enterprises either sell moderately or sell poorly. This situation is related to the weakness of the enterprises' technological development. Since 1979, when technological transformation loans were set up, 28.411 million yuan of these loans have been issued. Of this amount, 2.531 million yuan were issued in the first five years and 7.88 million yuan in the last five years. This situation reflects the fact that, because of the overheating of the economy in recent years, the enterprises have only stressed production and consumption and have neglected technological transformation and new product development, thereby weakening their development and making it impossible for them to adjust their product mix at the proper times in line with market changes. For example, in the Taiyuan No 1 Woolen Mill, after the enterprise went through the first and second stages of technological transformation before 1985 and then filled in the gaps in this transformation, the enterprise's economic returns rose in a straight line. However, because the enterprise has slacked off in technological transformation in recent years, about 80 percent of its products could not be sold.

Summing up the above, we make the following suggestions:

First, enhance enterprise management, overcome enterprises' temporary difficulties caused by the market slump, vigorously set in motion subjective factors, and bring deficits and losses down to the minimum extent possible. Second, enhance enterprise technological transformation, develop new products and put them on the market, adjust the product mix, expand sales, and eliminate product overstocking. Third, enhance enterprise funds management, put the stress on economic returns and the stress on funds management on an equal footing, vigorously adjust the funds mix, make appropriate use of funds, and accelerate the funds turnaround. Fourth, have the enterprise examine itself well after the completion of a three-year contract, affirming its achievements in the manner of seeking truth from facts and uncovering problems, bringing to light potential deficits and losses, and laying a foundation for contracts in the coming years. Fifth, have the enterprises themselves replenish working capital and enhance their capability for taking risks.

#### **Weekly Observer Column Views Economic Upturn**

91CE0517A Beijing JINGJI RIBAO in Chinese  
27 Mar 91 p 2

[Article by Chai Mao (2693 4243): "Economic Upturn Is Already In Place"]

[Text] Since last year's implementation of the fine-tuning policy, the country's economy has demonstrated a strong upward momentum: industrial production has increased for 12 consecutive months; market sales of consumer goods have increased for 9 consecutive months; and market sales of the means of production have increased for 6 consecutive months. In most regions, the growth targets for production and sales have been restored to, or are approaching, the normal annual targets. In our view, the economy has already turned upward, and has thus come to a turning point on the way to smooth, steady development. It is very important to maintain steady growth in the days to come.

It should be noted that last year's upturn in production was started mainly by circulating-fund credit; the gradual upturn in production brought about an upturn in market sales. However, with the gradual upturn in market sales, the starting role of the circulating-fund credit in production is gradually weakened, and market demand's pull on production gets stronger. If attention is not paid to reducing circulating-fund credit in correspondence with market demand's increasingly strong pull on production, it is possible to have above-normal development of production.

At present there is a basic, proper order in the relationship between domestic production and the market. First, last year's production in light industry was basically market-oriented, with few orders from the state. Since the second quarter, however, the upturn in production in light industry has quickened every quarter, with a growth rate higher than that in heavy industry. This indicates



that there is a gradual development of the proper order in the proportional relationships between industries, an order achieved through structural readjustment and using the market as the intermediary. Second, the market for the means of production has increased its growth rate every month, with a further rise in the capacity utilization rate of heavy industries. Even some old industrial bases look good in terms of the situation of orders for this year. Due to the impact of the above-mentioned factors, enterprises have greatly increased their sales revenues, and the amount of funds tied up in finished products is beginning to decrease. This results in a gradual changing of the vicious cycle of "credit—production—overstocked finished products" into a benign cycle of "production—sales—production." Yet the present benign cycle of production and the market is elementary, fragile, and in need of consolidation and further expansion. Without adjusting the scale of economic expansion, such a benign cycle could be destroyed and fall into a new round of overheating.

In addition, publicly owned industries have begun to have high growth rates. Of particular note is that, calculated on the basis of the average daily output value, in January this year publicly owned industries grew by 18.1 percent, a rate much higher than the 11.3-percent growth rate in state industrial production for the month. This shows that most production in publicly owned industrial enterprises, especially large- and medium-sized enterprises, has returned to normal. If the stimulating measures that were adopted previously were continued, they would inevitably push the growth rate of publicly owned industries towards an excessively high rate.

The system that led to the overheating of the country's economy has not been completely transformed. The recurrence of overheating is not only possible, but has already shown some signs of presenting itself again. First, in some regions industrial production is growing too fast. Even taking into account factors such as the low base figure for the same period last year or the year before, the growth rate in some regions has reached, or is approaching, the level before improvement and rectification. Second, the energy supply is becoming tight in a few regions where the economic upturn is rather fast, and production under limited electricity supply has begun. Third, there is an upturn in the prices of the means of production. For some items, the extent of this upturn is substantial. Fourth, there is an increase in the number of products in very short supply. All these signs should arouse sufficient attention.

Together with the economic upturn, the phenomenon of uneven development between regions and industries has been somewhat exacerbated. This has to some extent covered up the strong momentum of the economic upturn. One is thus prone to judging the economic upturn as not strong enough, and to ignoring the fact that the economy is at a turning point, on the way from upturn to normal development. In such a situation, if the fine-tuning policy adopted last year is to be continued, it would be difficult to avoid the situation in which, while

some regions and industries have not yet totally moved out of bad situations, other regions are already on the verge of overheated development. It must be noted that we must not use the number of enterprises that have falling economic efficiency or problems to demonstrate the insufficiency of the economic upturn, and thus argue for continuing to stimulate the economic upturn. Although the situation of falling economic efficiency in enterprises has not improved markedly, two factors should be given attention. First, publicly owned enterprises grew slowly last year, with an annual growth rate of 2.9 percent, while some of their fixed expenditures could not be reduced; this affected the improvement of their economic efficiency. For the first two months of 1991, the growth rate was as high as 12.2 percent. Some fixed expenditures did not have correspondingly large increases, and thus losses were gradually reduced and profits increased. Second, many price-adjustment measures were introduced last year, particularly in the latter half of last year, and most of them had to be absorbed by enterprises. With the price-adjustment factor eliminated, in real terms, enterprises' economic efficiency took a certain upturn in the fourth quarter of last year. It is true that a substantial number of enterprises still have production difficulties. However, most of them have long had problems, and have not just experienced the difficulties because of the start of improvement and rectification. It is both impossible and impracticable for us to help their production enjoy a speedy upturn. The solution to these enterprises' problems requires going through a process. Most of these enterprises are small and medium-sized, local state enterprises; they represent a small share of the entire national economy, and thus will not have a great impact on the overall situation.

In view of the aforementioned situation, the focus of present economic work and policy adjustments at the macroeconomic level should be to handle the turning point so as to steer the economy—which is taking a strong upturn—onto the track of smooth, steady development. For that purpose, we may consider adopting the following measures:

First, adjust the macroeconomic measures of fine-tuning that are highly expansionary. With the economic upturn, it is not proper to continue some of the highly expansionary macroeconomic measures of fine-tuning adopted last year. It is necessary to introduce adjustment, so as to reduce the intensity of stimulation of the economic upturn. This should include appropriate controls over group purchasing power and continuing the double-tightening policy.

Second, persist in conducting guidance and regulation and control based on categories. Regions and industries with a faster upturn tend to readjust their structures quicker, and their products are in line with market demand. Regions and industries with a slower upturn tend to readjust their structures slower, and their products sell slowly. Therefore, it is necessary to conduct guidance based on these two categories of regions and industries. For the former, we should mainly increase the



intensity of control over aggregates; for the latter, we should mainly quicken the pace of structural readjustment. There should be different examination criteria for different regions and industries. At the same time, we must also adopt different methods for enterprises that have different problems.

Third, pursue a growth development strategy that is structurally slanted. Currently, improvement and rectification has made some progress in regard to structural readjustment, but the progress is unstable. Structural readjustment is not entirely a market behavior, and we must not readjust the industrial structure according to spontaneous market activities. Instead, it is necessary to enhance structural readjustment according to forecasts on economic development. For a period, we must pursue a growth development strategy that is structurally slanted: that is, using development slanted towards key, leading industries to bring along the development of ordinary industries, and controlling the structurally slanted development in order to achieve the steady growth of the economy. To accomplish this we must:

A. Produce a list of industries entitled to priority development, periodically announce the situation of industries' development, and enhance investment guidance.

B. Formulate policies that are expansionary in terms of structure, instead of in terms of aggregates; implement differential interest rates, tax rates, and credit policies; and make timely adjustments according to the state of economic development.

C. Increase the investment intensity with regard to the industries entitled to priority development. Not only should the central government guarantee the percentage of investment to be used for those industries, but local governments should also have a corresponding proportion of investment. While trying to increase the two proportions with regard to fiscal revenues, in the next few years the central government should also appropriately increase financial bond issues. For a time it should also directly control a certain amount of funds for production and construction to be used for structural readjustment. If the center does not control such an amount, localities would try every means to get hold of it.

D. Increase the weight given to enterprises' technological renovation. The lack of flexible fund-raising capabilities is a major reason for the relatively slow development of publicly owned enterprises. Publicly owned enterprises have heavy burdens with regard to technological renovation. It is proper to have an opening with regard to fund-raising capabilities, so that they can be rather flexible in their fund raising. With regard to the enterprises entitled to priority development, it is also proper to consider linking the credit enterprises receive for technological renovation to credit tied up by the enterprises. That is, enterprises would pay back their loans, and a proportion of the payment would then be given back to the enterprises as technological renovation credit.

### **Leading Economists Discuss Economic Situation, Reform**

91CE0516A *Beijing JINGJI RIBAO in Chinese*  
26 Mar 91 p 3

[Article compiled by Gao Haiyen (7559 3189 3601) et al.: "The Basic Solution to Deep-Seated Conflicts and Problems Lies in Reform"]

[Text] On 14 March, the Society for Restructuring the Economic System of China convened a symposium of economists in Beijing. Upon giving full recognition to the achievements of rectification and improvement in the last two years, those who attended the symposium also analyzed in depth the deep-seated conflicts and problems in the current economic development and reform, and they explored and discussed the direction of China's economic reform and opening up and its mission in the 1990's.

### **What Do the Economists Make of the Current Economic Situation?**

**Li Yining [0632 0112 1380] (member of the NPC Financial and Economic Committee; professor of Economics, Beijing University):** Since last year China's economic development has run into some new conflicts and difficulties. Some comrades are worried that these problems will affect this year's economic situation. In my opinion, this year's economic situation will not be as bad as some have predicted, because, generally speaking, there are three reasons why an economic situation would deteriorate: crop failure; high unemployment rate; and runaway inflation. Currently, we do not have a serious problem in these areas. China has had two consecutive years of bumper harvest; unemployment has not exceeded the rate society finds acceptable; inflation is under control. But we should also realize that we still have an arduous task on our hands if we hope to make the economic situation clearly better, because to improve the economic situation, at least three conditions must be met: Enterprise economic efficiency must clearly improve; fiscal income must increase fairly rapidly; exports must give impetus to economic growth. Of these three conditions, the first one is the most important. Obviously, currently, none of the three conditions has been met. Overall, unless enterprises can greatly improve their economic efficiency, it is unlikely that there will be any significant improvement in the economic situation, nor will there be a major problem.

**Dong Fureng [5516 6534 4356] (vice chairman, NPC Financial and Economic Committee; honorary president and member of the Economics Institute, Chinese Academy of Social Science [CASS]):** Since the latter part of last year, China's economy, especially its industrial production, has shown signs of recovery. Some comrades have been overly optimistic because of this. In my view,

we must continue to be soberminded and must not be blinded by undue optimism. We should realize that so far this year, although the economy has recovered somewhat, the recovery is still out of step with other aspects of the economy in five ways: One, the rebound in industrial production is out of step with the increase in sales. So far, although there has been some improvement in the market slump, the increase in sales has been slow. Rural markets, in particular, have been slow to recover. Two, the rebound in industrial production is out of step with the readjustment of the industrial structure. The stockpile of goods and the slow pace of readjustment of the industrial structure may not have a significant impact in the short run, but in the long-run, it can be a serious problem. If we fail to produce a proper flow of means of production gradually and install some new mechanisms through rectification and improvement, the previous structural problems will reappear. Three, the rebound in industrial production is out of step with the progress of technological improvement. When the Western economy faces a recession, enterprises will either look to technological improvement for a way out or utilize the market to eliminate some of the outmoded enterprises. But many of China's enterprises lack the funds and the drive to make such technological transformations, and they still cannot compete in the market where the superior can eliminate the inferior. Four, the rebound in industrial production is out of step with the improvement in enterprises' economic efficiency. If we look at the cause, it is because enterprises' increased output is not guided by the market's price signal; rather, it is because they are forced to fulfill the production quota handed down by the higher authorities. Enterprises still work within the old framework where they must produce for the sake of increasing the output value, and they are still being kept alive by funds provided by the state. Five, the increase in industrial production is out of step with the increase in fund input. Last year, to stimulate industrial output, the state provided enterprises with huge sums of circulation fund loans. The increase in fund input greatly exceeded the increase in production and sales, and as a result, the circulation fund payback period has been much longer, and we have not seen any decrease in triangular debts. In short, the economy may improve somewhat this year, but it will not be a major improvement.

**Zhao Haikuan [6392 3189 1401] (chairman of the Financial Institute, People's Bank of China):** We should not be overly optimistic about the current monetary situation, although we seem to have a breathing-space at the moment. Since the fourth quarter of 1989, the state has greatly increased bank loans, and sooner or later, this will be reflected in purchasing power. What we should be aware of is the potential danger, and in formulating countermeasures, we must consider the time-lag in any currency input.

**Chen Jiyuan [7115 0679 0955] (chairman of CASS's Institute of Agricultural Economics):** Since the second half of 1988, the central authorities have put extra effort

into agriculture, and as a result, we have had bumper harvests two years in a row, in 1989 and 1990. But if we look at the actual tasks, there are still many problems, and some are very serious. Today, many localities appear to "have problem getting rid of their grain," which gives people the false impression that we are having a grain surplus again. But in fact if we look at the nation's per capita grain consumption, the consumption rate was actually lower in 1989 and 1990 than in 1984. The phenomenon that "grain is not selling" is due mainly to the shortage of funds, the lack of storage capacity, and to poor circulation. The overall productive capacity of agriculture has not significantly increased in recent years. If the weather is good, we have more grain, and if the weather is bad, we have less grain. In a certain sense, we are dependent on nature for our food supply. To change this situation, we must make technological progress and increase input. But in recent years, although the state has been increasing inputs every year, we are still a long way from satisfying the needs of making agricultural technological progress and improving the agricultural infrastructure.

**Zhang Zhuoyuan [1728 0587 0337] (director of CASS's Institute of Finance, Commerce, and Commodity Economics):** Those trained in economic theories have three different assessments about the current situation: One suggests that inflation will flair up in the second half of this year; another discounts that view altogether, and the third suggests that this year's economy will be a mixed bag and that the real problems will emerge probably next year or the year after next. I agree with the last assessment. Our problems will not be too serious this year, because of the bumper harvests. Generally speaking, there is more than a 50 percent chance that an increase in grain price will lead to inflation and vice versa. But it should be pointed out that if we fail to pay attention to, and try to resolve, the hidden danger in the current economic situation, it will have a serious effect on our future economic development.

#### **Accelerating the Pace of Reform Is the Basic Solution To Our Deep-Seated Conflicts and Troubles**

**Dong Fureng:** Although this year's economic situation will not pose a serious problem, we must realize sobermindedly that if the deep-seated conflicts and problems are not resolved, they will be the source of hidden troubles for China's economic development throughout the 1990's. They may even seriously limit China's economic growth in the 1990's. We should be vigilant and pay close attention. Rough estimates show that one-third of the enterprises in the ownership by the whole people system are showing losses on paper; one-third are showing a profit but are in fact losing money, and only one-third are truly making a profit. Many enterprises are forced to borrow money to pay wages and bonuses, and some have to use their depreciation funds and funds earmarked for major overhaul to pay wages. Such practices will seriously drain the state's assets, and the state's fixed assets and circulating funds will be gobbled up slowly.

**Li Yining:** We cannot simply put off dealing with the problems and conflicts that have emerged during economic development. If we do not deal with them now, the possible consequences are three-pronged: One, the state-run enterprises will collapse, and state-owned assets will gradually be cleaned out; two, the source of funds will slowly dry up; three, if we let things drag on, it will sap the people's morale. Today, economic and technological competition between different social systems and between different nations is increasingly intense. To us, this is a serious challenge. Our only solution is to further implement thorough reform and accelerate the nation's economic development. Only in this way can we fully demonstrate the superiority of the socialist system and in turn truly uphold and strengthen the socialist system, so that we can stand among nations of the world as a true power.

**Wang Jue [3769 3778] (professor, Central Party School):** The preliminary goals of rectification and improvement have been achieved, and the economy has recovered somewhat so far this year, but we should also realize that in the last two years, rectification and improvement have relied primarily on administrative measures. These measures are fine in emergency situations, but they are not the real solution. The deep-seated conflicts and problems in the economy today are mainly structural. If they are not dealt with at the roots, they will turn into "chronic diseases," and the longer we drag on, the harder they will be to cure. From the perspective of thorough reform, although there are numerous conflicts and problems, this is nevertheless a good time to step up reform and move forward comprehensively. The Seventh Plenary Session of the 13th Party Central Committee said that thorough reform was the main driving force behind the economic development in the 1990's. If reform can take a big step forward, it is hopeful that the next set of strategic goals can be achieved.

**Zhou Shulian [0719 0647 5571] (director, CASS's Industrial Economics Institute):** The rate of industrial growth will be higher this year, because we have already paid a steep price for it. But the grim problem lies in the fact that there has been no corresponding change in technological transformation and technological progress and in the entire economic structure. This means our economic development will run into even more serious conflicts and problems in the future. We will be better off to take these problems a little bit too seriously than to be overly optimistic at this point. Excess scope of capital construction, poor product quality, and low economic efficiency are the result of prolonged use of administrative measures to solve problems. Now it seems we must tackle the system to solve our problems. Today, we must work hard especially to enliven the large and mid-sized enterprises; otherwise, the more vigorous nonstate-owned economy will besiege and eliminate the slumping state-owned economy, and if we do not accelerate market reform, even the lively nonstate owned economy will lose its vitality.

### **The Crucial Link, Guiding Ideology, and Ideas For Deepening Reform**

**Li Yining:** Large and mid-sized state-run enterprises have no vitality, and if allowed to go on, it can be very dangerous. Two situations may emerge: One, the vigorous nonstate-owned enterprises will besiege the languid state-owned enterprises; two, localities with a vigorous economy will squeeze out those with a lifeless economy. I support reform of the housing system and the social security system, but some localities want to make these the breakthrough point to other reforms, which is also worth discussing. The goal of reform of housing, social security and other systems is at least to meet the people's needs, but it also requires us to reduce the state's financial burden, and this means that housing, medicare and retirement expenses must be shared by the state, enterprises, and individuals. However, enterprises are still unprofitable; they have trouble raising funds, and they have a heavy burden in redeeming their bonds, and sometimes they cannot even afford to make technological transformation. Where would they get the money to pay for housing reform and reform of the social security system? Thus, we must first turn up the power on enterprise reform to invigorate large and mid-sized state-run enterprises and to increase the state's fiscal income, and then everything else can be readily resolved.

**Wang Jue:** The central authorities have paid special attention to the large and mid-sized state-owned enterprises, but, today and well into the future, whether we can really solve any problem by relying only on the contract system is still a question. It is an issue worth studying carefully. Currently, we still have a serious problem with the draining of state-owned assets; nobody is taking care of them, and ownership rights in those assets continue to exist in name only. State-owned assets have become "meat in the pot," and everybody wants a bigger share. In a situation where economic efficiency is on the decline but workers' wages remain inflexible, the workers' income is already eating into the state-owned assets. If this persists, state-owned assets will be cleaned out and the public ownership system will collapse. It is imperative that we perfect the policy goals of the contract system now, that is, we must change the current profit and tax contract system into an asset responsibility system. We need to clarify the property rights relations, draw a line of demarcation with respect to the rights, responsibilities, and benefits of the state and enterprises, and separate the government's right to manage the assets from its right to do business with those assets—giving enterprises the economic and legal responsibility to do business with state-owned assets. In the long-run, we must steadfastly promote the reform of the enterprise property rights system and gradually transform the large and mid-sized enterprises into socialist shareholding enterprises.

**Zhou Shulian:** In the 12 years since reform began, in terms of theory, we have had a clear guiding ideology of establishing a new system of planned commodity

economy, but in terms of system and policy implementation, once in a while we still run into the old concepts and practices of the product economy which are reluctant to give up state control. For example, in perfecting the contract system, should we rely on thorough reform and on changing enterprises' internal mechanisms to solve the problem of enterprises' short-sighted behavior during the term of the contract, or should we rely on examination, assessment, and on stronger administrative and management measures? With respect to the development of enterprise groups, should we develop trans-industry, trans-regional, competitive enterprise groups according to the principles of the commodity economy, or should we follow traditional thinkings and methods and set up enterprise groups by matching them with the proper management departments, taking back the rights and privileges already handed down, and putting the decontrolled enterprises under control again? Reform should emphasize solving the problems in the mechanisms and the system. Today, enterprises still are dependent on planning and on outside forces to help them make technological improvement and upgrade their facilities. This is not a permanent solution. We may be able to push through some short-term technological improvements by administrative means, but who can guarantee that they will still be advanced technologies and equipment in a decade or so? Obviously, the only real solution lies in establishing an internal mechanism through thorough enterprise reform, so that enterprises can accumulate on their own, promote their own development, and upgrade themselves. Currently, we should expand the pilot program with regard to the shareholding system. Since foreign businessmen are allowed to come to China to set up joint ventures, why limit the shareholding system to the large and mid-sized state-owned enterprises and to inter-enterprise and inter-regional arrangements? If we rely mainly on administrative ways and means to set up enterprise groups, we can only set up administrative-type enterprise groups, and the results will not be satisfactory.

**Wang Jue:** Upholding the socialist public ownership system is the basic direction of China's reform. But what we want to uphold is absolutely not an inefficient, lifeless, and lethargic publicly owned economy but a lively, energetic, and efficient publicly owned economy. We should actively find a way to bring about this form of publicly owned economy. Whenever we bring up the reform of the property rights system and the shareholding system, some comrades immediately conclude that it will jeopardize the public ownership system. This is purely a misunderstanding. Reform of the enterprise property rights system is the reform of enterprises' organizational system; it has nothing to do with the public ownership system itself. On the contrary, the state's stock control and state-owned enterprises' owning each other's stocks and the publicly owned enterprises' buying shares of nonpublicly owned enterprises not only will establish and reinforce the public ownership system's leadership role but will also help develop and strengthen the publicly owned economy. Implementing

the shareholding system will strengthen the publicly owned economy but, through the delineation of property rights and separation of government and enterprises, will help enliven enterprises and turn them into bona fide independent producers of commodities. Meanwhile, it will also create the mechanism for accumulating and propagating publicly owned assets and effectively prevent any undue encroachment on and draining of state-owned assets.

#### **Measures and Policies For Deepening Reform Must Be Specific**

**Chen Jiyuan:** Since reform first began, we have made enlivening the large and mid-sized state-owned enterprises the central link of the reform program. But more than a decade has gone by, and we still have not achieved this central goal. Establishing the market system was first brought up in the "Sixth Five-Year Plan." It was emphasized again and again in the "Seventh Five-Year Plan" and reiterated as one of the missions of reform under the "Eighth Five-Year Plan." But this mission has remained a slogan so far, and there has been few concrete measures, let alone any real effort to implement them. This has made it impossible for reform to make any substantive progress.

**Zhou Shulian:** The core of thorough reform lies in deepening enterprise reform, and the crucial and fundamental task in deepening enterprise reform is to implement the "Enterprise Law." If enterprises are not bona fide enterprises, they will have no vitality to speak of. But today we have a strange phenomenon: All laws are being discussed except the "Enterprise Law," or at least not much is being said about it, and there are detailed rules and regulations on how to implement all laws except the "Enterprise Law." The "Enterprise Law" was debated repeatedly; it was examined and approved and eventually ratified by China's highest organ of state power—the National People's Congress. It includes many good things and embodies the painstaking work and the wisdom of many policy-making departments, theoretical research departments, and entrepreneurs, and it deserves to be put into practice diligently. It is stipulated in the "Enterprise Law" that government and enterprises should be separated. If they are not separated, enterprises will not be able to take care of their own profits and losses, nor will they have vitality, and we will not be able to deal with the problem of "reckless apportionment, fee collection, and fines."

**Zhao Haikuan:** Reform of the enterprise management mechanism and property rights system requires banks to create the proper external environment and conditions. If banks are to have effective control and be able to promote reform amid macroeconomic regulation and control, the banking system itself must be restructured. The emphasis of such reform should be on strengthening the central bank's control and regulation capability and operating the specialized bank as enterprises. We can consider opening a bank that handles only policy-oriented loans, thus separating policy-oriented loans

from business-oriented loans, so that the bank's profits and losses are clearly stated in the accounting books.

**Wang Jue:** Whether we are talking about separating tax and profit or delineating property rights, we must first establish the value of our assets by taking physical inventory. This is a huge project, and it is impossible to go into every little detail, but we still have to try to do something. We can assess the value of the assets based on their replacement cost. Older enterprises in Xiamen used this method, and within months, they had a good idea of the scope and the limit of enterprise assets. In addition, to implement reform that centers around enterprises does not mean abandoning other reforms. It should be linked to and complement other reforms. To improve economic efficiency, superior enterprises must be allowed to eliminate the inferior ones, and this elimination process must be coordinated with the social security and other systems.

**Wang Da [3769 6671] (vice president, China People's University):** From the second half of 1989 until 1990, leaders at all levels have shown tremendous interest in our monetary policy. Using monetary policy to control and regulate the economy is a big step forward compared to using only administrative measures. But I want to remind everybody that monetary policy should not be used too frequently as an economic lever. The West used to rely almost exclusively on fiscal regulations, then they combined fiscal measures with monetary measures. Now they suggest that these two regulatory measures should be applied in moderation. Excess use of monetary policy can land us in an inflationary quagmire before we know it.

## FINANCE, BANKING

### Zhejiang's First Foreign Currency Market Opens in Hangzhou

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1504 GMT 6 May 91

[Text] Hangzhou, May 6 (XINHUA)—Zhejiang Province in east China opened its foreign currency exchange market today in Hangzhou.

The market is managed by the province's foreign currency exchange center.

At present, the market trading hall has 40 member seats; representing the 21 large enterprises in the province, 11 monetary organizations which deal with foreign currency affairs in Hangzhou, and eight foreign currency exchange centers and their branches in Hangzhou, Jiaxing, Huzhou and Shaoxing Cities.

Registered members of the market can enter the market to buy and sell foreign currencies at competitive prices. Nonmember enterprises have to carry out transactions through brokers or trade deputies.

Since the market started its trial operations in late March this year, its foreign currency trade volume has reached

85.95 million U.S. dollars, trade prices have been basically stable and the managing system has proved successful.

In today's business, 14 transactions with a total business volume of 1.26 million U.S. dollars were concluded.

### Shanghai Issues Foreign Exchange Stocks in 'Near Future'

OW0805164691 Beijing XINHUA in English  
1536 GMT 8 May 91

[Text] Shanghai, May 8 (XINHUA)—Shanghai will issue foreign exchange stocks in the near future as part of the city's financial reform effort to open its security exchange market to foreign countries.

Another kind of stock, which will be issued at the same time, will be sold for foreign currency but will have a Renminbi face value. In addition, enterprises in the city will be allowed to sell their stocks abroad.

In his opening remarks at a seminar on Sino-Australian economic relations, professor Gong Haocheng, chairman of the Shanghai branch of the People's Bank of China, said that the volume of stocks sold in Shanghai during the first quarter this year amounted to 60 percent of the total volume sold in 1990.

He attributed the increase to the establishment of the Shanghai Securities Exchange, which was set up at the end of last year, marking a major step in perfecting the city's stock market.

## MINERAL RESOURCES

### Minister Views Development of Mineral Resources

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[Report by staff correspondent: "China Attaches Importance to Construction of Mineral Resources—Interviewing Zhu Xun, Minister of Geology and Mineral Resources"]

[Text] Mineral resources are the grain for industrial production. When human society develops toward industrialization, mineral resources become more and more important. It is one of the most fundamental factors restricting the economic and social development of a country. China is currently in a period of increasing demand for and consumption of mineral resources, and the 1990's is a crucial period for its modernization drive. On the eve of the fifth anniversary of the promulgation of the "Law of the PRC on Mineral Resources," this reporter interviewed Zhu Xun, minister of geology and mineral resources, on the question of mineral resources construction.



### The Situation of Mineral Resources on the Mainland Is Not Promising

Mineral resources occupy a very important position in China's national economy. Since the promulgation of the "Law on Mineral Resources," China has been on a track of law in developing, using, and protecting mineral resources and has promoted the construction of mineral resources. Zhu Xun said that since the founding of New China, the prospecting and exploitation of mineral resources have been developing rapidly. Up to the present, a total of 162 minerals and nearly 200,000 mining areas (points) have been developed. Reserves of 148 minerals have been proven, and those of more than 20 of them are among the world's largest. Annual mining capacity has reached more than 5 billion metric tons. The outputs of coal and cement are the highest in the world, and those of steel, oil, phosphorus, and sulfur are in fifth place. The exports of oil, coal, wolfram, and tin make up more than one-fifth of the total volume of China's export trade. China has now become one of the very few big mineral countries in the world which have comparatively rich and complete mineral resources. China's comprehensive national strength occupies a decisive position in the world.

Zhu Xun continued: In China, about 95 percent of energy and 80 percent of industrial raw materials come from the exploitation of mineral resources. Each year, more than 3 billion metric tons of mineral resources are used for the development of the national economy. In agricultural production, all chemical fertilizers, pesticides, the means of agricultural production, and farmland irrigation works rely on mineral resources and underground water resources. Since the founding of New China, a number of mineral bases, which are playing an important role in economic development, have been established on the mainland, such as the Daqing oil field, the Shengli oil field, the Anshan Iron and Steel Complex, the Wuhan Iron and Steel Complex, the Panzhihua Iron and Steel Complex, the Baotou Iron and Steel Complex, the Baiyin, Jinshan, and Xihuashan nonferrous metal mines, and the Datong, Lianghuai, Shenfu, and Zhunger coal mines. With the discovery and development of a series of large-scale mining areas, more than 300 new cities and industrial areas have been established, which are mainly developing the excavation industry, energy industry, raw materials industry, heavy industry, and chemical industry. Thus, a material foundation and a basic framework have been established for China's industrialization.

Even so, Zhu Xun held that the current mineral resources situation on the mainland is still not promising. Although the latent value of the proven mineral reserves in China and China's mineral strength are both in third place in the world and China is a big country with rich mineral resources, due to its large population, the per capita possession of mineral resources is comparatively lower. In addition, China's economic construction is now in a development period, with a rapidly increasing demand for mineral resources. Therefore, the

mineral resources situation is rather grim. Minister Zhu Xun gave a detailed explanation on this point.

—The basic contradictions between China's mineral resources and social demand will exist for a long time. Generally speaking, China has rich mineral resources, but the per capita possession of mineral resources is comparatively low and the mineral resources are not fairly well-distributed. Moreover, there are more poor ores than rich ores, more mixed ores than single-product ores, more medium and small deposits than large or huge deposits. All this determines that China's mineral resources are relatively inadequate, their development and exploitation are more difficult, and both the investment they need and their production costs are higher. As the population continues to grow and the economy develops, there will be increasing pressures on mineral resources, and the contradictions between supply and demand will exist for a long time.

—Due to the inadequate mineral reserves, the intermediate and long-term situation of supply and demand will be very grim. From 1987 to 1990, as proposed and headed by the Ministry of Geology and Mineral Resources, the State Planning Commission, the State Economic Commission, and the State Science and Technology Commission, together with more than 500 experts from the relevant industrial departments and relevant units of various provinces (municipalities and regions) held many discussions and made a series of systematic analyses of 80 major mineral resources of our country to see how they can ensure the realization of the strategic goal for our economic development "in three steps." Their researches show that in the next decade, some major mineral resources still cannot satisfy demand and the reserves of seven major resources are inadequate or are running short. —The reserves of mineral resources are unable to meet demand and the newly discovered reserves are extremely inadequate. In the past decade or so, the reserves of mineral resources were dropping year by year and the supply and demand of some major mineral resources were unbalanced. The problem of inadequate follow-up resources has thus become more serious. For example, in oil production, the oil recovered from many old wells, including those of the Daqing Oil Field, has a very high water content. In the fields of steel products, nonferrous metals, and chemical fertilizer, China is still the largest importing nation in the world. Recently, the supply of water resources has also been falling short of demand. There is a shortage of water in more than 100 cities.

Zhu Xun said: Thanks to the economic improvement and rectification and deepening reforms over the past two years or so, the situation of supply and demand in energy resources and raw materials has been improved to a certain extent. However, this was a result of reducing the scale of economic construction, tightening money supply, and reducing the growth rate of industrial production in past years. In order to realize the second step of our strategic goal, that is, to quadruple gross output

value, the GNP should be increased by about six percent every year. Under this normal development speed, the supply of energy and mineral resources will continue to be inadequate.

#### **Further Readjust the Structure of Development of Resources**

At present, there is still a trend of increasing demand for mineral resources in the world. The outbreak of the Gulf war forced many countries to readjust their respective economic and resources policies. Of course, the readjustment of the economic structure, especially the energy structure, of some countries in the 1990's makes the world economy much more capable of withstanding fluctuations compared with the early 1970's. However, Minister Zhu Xun held that we should not rule out the possibility of continuous deterioration in the energy situation or even the outbreak of new crises. The situation of supply and demand for mineral resources will become more complicated and changeable. China should make great efforts to increase the degree of self-sufficiency in major mineral production and enhance its ability to deal with emergencies. For this reason, China's construction and development of mineral resources should take the following steps:

First, we must take the road of economizing on resources while developing the economy. It is necessary to rely on scientific and technological progress to vigorously increase the level of ore dressing and smelting operations, with increasing the resources utility rate of every unit as the central link. It is necessary to implement the policy of prospecting, developing, and using mineral resources in a comprehensive way, to make full use of poor and mixed ores, and to take the road of creating artificially enriched ores. It is necessary to vigorously increase the rate of recovering and using solid, liquid, and gas wastes and ultimately consumed wastes and the rate of using the secondary resources and to establish a closed circulation system and mass production system for mineral resources. It is necessary to establish an intensive type of economic system, production system, and consumption system for mineral resources suited to China's national situation.

—We must continue to mainly rely on our internal resources and regard foreign resources as supplementary. We must promote import and export of resources and implement the policy of using both resources and the policy of treating different mineral products for import and export in different ways. We must develop multiple processing and precision processing of mineral products and improve both the structure of mineral products and the structure of their import and export. We must greatly increase the per-unit added value and use value of mineral resources.

—We must implement the policy of reserving mineral products and mineral resources which are of strategic importance and the policy of protecting special mineral products.

Second, we must readjust the fundamental industrial structure and attach due importance to the prospecting of mineral resources and the mining industry, which is a basic industry of the national economy. During the Eighth Five-Year Plan (1991-1995) and the 10-Year Program (1991-2000), we must implement an inclined investment policy and make continuous efforts to increase the supply of resources. In the next 10 years, the state will vigorously promote the development of various basic industries by readjusting the industrial structure. These basic industries include the agriculture, energy and raw materials industries, and communications and telecommunications. However, as prospecting and mining are the basis for these basic industries, when working out plans for economic development in the future, it is necessary to give full consideration to the balance between supply and demand of mineral resources and the harmonious development of the energy and raw materials industry and the prospecting and mining of mineral resources. It is necessary to change our backward situation in the prospecting and mining of mineral resources.

—In the next five to 10 years, there must be a simultaneous increase in the investment by the central financial departments in the prospecting and mining of mineral resources and investment in the development of the energy and raw materials industries. —It is necessary to gradually establish a perfect geological prospecting and mining investment structure, tap more financial resources, establish and gradually expand the geological prospecting fund and mining development fund, and encourage local finance and society to support this work. It is necessary to establish a relatively stable geological prospecting and mining investment structure with central finance as the main body and various bonuses, local finance, and money awards of society as the supplementary resources.

—It is necessary to strengthen the work of working out long-term plans for mineral resources. It is necessary to work out a "program for the development of China's mineral energy resources and mineral raw materials" as soon as possible.

Third, by deepening reforms, it is necessary to establish a management system for the planned commodity economy which is suited to China's national conditions, so that the relationships in various fields can be harmonized.

—It is necessary to establish a mineral resources management system with the management of mineral resources as the core [as published]. The state, which is the owner of mineral resources, should strengthen management of the ownership of national resources and the property rights arising therefrom. It is necessary to implement a system of compensated exploitation of mineral resources and a system of compensation for the exhaustion of mineral resources and to enable the state to receive all the economic benefits obtained from mineral resources. The state should

authorize the mineral resources management departments to exercise these powers on behalf of the state and carry out overall management of mineral resources in terms of prospecting, development, utilization, supervision, protection, reservation, and allocation. At the same time, it is necessary to handle well the relationship between the central authorities and local governments and gradually set up a classified management system with the central government as the main body and on the basis of the state ownership of mineral resources.

- It is necessary to establish a management system for mineral prospecting which has distinctive Chinese characteristics, is suitable for the planned commodity economy and is full of vigor and vitality. It is necessary to promote commercialization of some achievements made in geological prospecting by implementing the "Law on Mineral Resources" and reforming government organizations and their functions, to improve the management of geological prospecting units, and to socialize some geological prospecting contingents. It is necessary to establish an operation mechanism and fund circulation mechanism which are characterized by the combination of planned economy and market regulation, the combination of government administration and the management of the responsible departments, and the combination of successful macroeconomic control and flexible microeconomic management so as to promote the continuous development of the productive forces in the field of geological prospecting.
- It is necessary to establish a unified mining structure and a unified transdepartmental coordinating organ for the mining industry in accordance with the idea of developing large mines, comprehensive mines, and open mines so as to strengthen the management of the mining departments and improve the situation of the mining industry, which now relies on the processing industry and government departments. It is necessary to gradually enable the mines to become independent economic entities assuming sole responsibility for their profits or losses, to promote the coordination among specialized departments and bilateral ties, and to turn the mining enterprises which have been freed from direct management by relevant government departments into transregional or national-level mining groups and mining corporations according to the mineral resources they are dealing with and the different mining zones and economic zones in which they are located. They must carry out independent operation and take part in international competition in accordance with the principle of appropriately separating ownership from management power and

must explore and develop large-scale and extra-large-scale mines in accordance with the principle of operations of scale. While implementing the policy of simultaneously developing large, medium-sized, and small mines, with large mines as the backbone, it is necessary to strengthen the planning and management of township and town mines so as to promote their continuous development.

- It is necessary to reform the irrational price system for mineral products and establish a new mineral resources price system and accounting system. The pricing and accounting for mineral resources should be brought into line with the accounting system of the national economy. The price differences between different mineral products should be readjusted step by step and in a planned way. The prices of energy resources, mineral raw materials, and water resources should be increased, and a price policy aiming at protecting resources should be adopted. A monopoly price system or state monopoly system should be adopted for those strategic, scarce, and special resources that have an important bearing on the national economy.
- Fourth, it is necessary to strengthen legislation and law enforcement and supervision work and establish and improve the law on mineral resources and other supporting regulations.
- It is necessary to sum up our basic experiences in implementing the "Law on Mineral Resources" over the past five years and further improve mineral resources management regulations. We must strive for an early formulation of the "regulations on implementation of the Law on Mineral Resources" and other administrative laws and regulations.
- It is necessary to authorize the relevant responsible departments to exercise arbitration rights and strengthen supervision over the enforcement of laws so that laws can be strictly observed and those who violate them can be punished. We must continue to carry out an overall examination every year on the enforcement of the laws and report to the Law Committee of the National People's Congress.
- Fifth, it is necessary to carry out nationwide propaganda and education on the national mineral resources situation so that all citizens in our country can understand that "mineral resources are limited and precious and are the basis for building our country" and that "in our country, which has a large population but inadequate resources, the mineral resources situation is grim." Thus, they will regard "economizing on resources as a glorious thing and wasting resources as a shame."

### March Metals, Minerals Figures Released

HK0105094891 Beijing CEI Database in English  
1 May 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of metals and minerals in March 1991, released by the General Administration of Customs:

ITEM	UNIT	MAR 1991	MAR. 1990
Iron Ore	ton	1,016,884	1,038,084
Coal	ton	215,622	255,848
Steel Billets and Roughly Forgings	ton	90	20,758
Rolled Steel	ton	264,414	374,523
Steel Wire Rod	ton	5,330	45,101
Steel Angles, Shapes and Sections	ton	3,680	31,060
Seamless Steel Pipe	ton	98,342	44,474
Iron and Steel Wire	ton	1,567	1,470
Copper and Alloy	ton	6,018	10,097
Alum and Alloy	ton	9,054	4,635
Zinc and Alloy	ton	446	30

### Metals, Mineral Exports in First Quarter

HK0705110091 Beijing CEI Database in English  
7 May 91

[Text] Beijing (CEI)—Following is a list showing China's export volume of metals and minerals in the first quarter of 1991, released by the General Administration of Customs:

Item	Unit	1-3, 1991	1-3, 1990
Tungsten ore	Ton	2,797	3,186
Coal	Ton	3,539,591	3,009,851
Coke, semi-coke	Ton	143,944	338,335
Rolled steel	Ton	582,765	210,599
Stick and rod	Ton	204,603	94,139
Angle steel	Ton	75,942	25,087
Plate	Ton	175,585	50,609
Iron and steel wire	Ton	47,139	24,836
Copper alloy	Ton	2,814	3,251
Copper products	Ton	4,422	2,819
Aluminum alloy	Ton	14,377	1,847
Aluminum products	Ton	7,262	1,131
Zinc alloy	Ton	1,414	1,542
Tin alloy	Ton	2,001	654
Antimony	Ton	6,222	7,038

### INDUSTRY

#### Difficulties Confronting Shanghai Steel Industry

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[Article by Zheng Linxiang (6774 2651 4382), Zhang Liqi (1728 4539 2759), Chen Xigang (7115 6932 0474), and Sun Jianlong (1327 1696 7893): "Difficulties That the Shanghai Steel Industry Is Facing and the Solution"]

[Text] The steel industry is the basic industry in Shanghai's economy. Shanghai has nearly 30 percent of the country's textile industry, 27 percent of its chemical industry, 30 percent of its machine industry, and 50 percent of its shipbuilding industry. In addition, it is an important automobile, household appliance, and nuclear industry production base for the country. The local steel industry provides 70 percent of the processed steel that these industries need.

The steel industry is the mainstay industry in Shanghai's economy. Its industrial output value accounts for approximately 11 percent of the gross output value of all Shanghai's industry, and retail sales taxes from it account for 17 percent of Shanghai's total retail taxes. The taxes it pays the state each year account for eight percent of Shanghai's total government revenues.

The steel industry is the guiding and strategic industry in Shanghai's economy. Today, Shanghai is in the heavy industry stage of the industrialization process. Objectively, this means that without the strong Shanghai steel industry as a backstop, Shanghai would be unable to support developed electromechanical industries. Without the advanced and rapid development of the steel industry, the economic take-off of Shanghai's electromechanical industries and of all Shanghai would lose its immediate and sustained impetus.

Furthermore, Shanghai's steel industry also occupies a crucially important position nationwide. After nearly 40 years of development, it now has a production capacity of 5.3 million tons of steel and 4.9 million tons of processed steel products. It ranks second only to Anshan, making it the country's second largest steel industry base. During the past 40 years, it has produced a total of 110 million tons of steel, and 100 million tons of processed steel products. This is 15 percent of the country's total steel output during the same period. The Shanghai steel industry produces 182 products that are the best in the country, the best among ministries, and the best in the city, accounting for 67 percent of total output. Products whose production is organized in accordance with international standards number 267, their output amounting to 60 percent of total processed steel products output. Economic returns from Shanghai's steel industry are even more remarkable. The 27.7 billion yuan in profits and taxes that it has paid the state during the past 40 years amount to 6.8 times again as much as the total investment in its fixed assets, and 18

times the state investment in its capital construction. It has made an extremely important contribution to the building of Shanghai's and the whole country's economy.

It must be said that given the economic foundation already in existence, and by relying on Shanghai's technical dominance and management dominance, which is the best in the country, the Shanghai steel industry is entirely capable of increasing both output and returns simultaneously. Actually, it did this for 30 years, but during the last 10 years, and particularly in recent years, economic returns from Shanghai's steel industry have not increased with output increase. On the contrary, economic returns declined as output increased. During this 10 year period, steel production capacity increased from 4.5 million tons to 5.3 million tons, and finished steel product capacity increased from 3.6 million tons to 4.9 million tons, steel and finished steel product output during the 10 years exceeded the total for the previous 30 years. Profits, on the other hand, went down from 1.15 billion yuan in 1983 to 906 million yuan in 1988, and to 516 million yuan in 1989. During the 10 years, steel output increased 17 percent and finished steel product output increased 28 percent, but profits declined more than 50 percent. As a result, Shanghai went from being the champion in total taxes and profits paid in 1987 to fourth place today after Anshan, Capital Steel in Beijing, and Wuhan Steel. Shanghai's position began to totter. Even more worrisome is that since the beginning of the 1990's, Shanghai's steel industry has had historically unprecedented huge industrial losses. During the period January through June 1990, cumulative industrial losses totaled 96 million yuan, losses of Shanghai steel's No. 1, No.3, and No. 5 mills reached 219 million yuan, a 310 million yuan decline in profits over the same period in 1989. It is anticipated that no fundamental change for the better will occur by year's end. Shanghai Steel, which has always been noted for high returns, has had an inverse increase between profits and returns since the 1980's. Its huge industrial losses during the first half of 1990 truly deserve to be pondered deeply.

Just what are the reasons for the tremendous slide in the economic returns of the Shanghai steel industry? Just what are the reasons that pose a strong contrast to the stable growth of economic returns from the steel industry in fraternal areas? In a nutshell, they are as follows:

### 1. Objective Reasons

**A. The Price Factor.** Because the Shanghai steel industry is a processing industry, it has virtually no pig iron and energy resources of its own. Ninety-two percent of its pig iron and 100 percent of its coal is provided by other provinces, municipalities and the international market. Therefore, the impact on Shanghai steel of rises in prices of raw and processed materials, energy and transportation has been substantial. In 1988, Shanghai steel's excess payments of comparable product costs came to 769 million yuan, 582 million yuan of it, or 75.68 percent of excess payments, being attributable to price factors. In 1989, excess payments of comparable product

costs amounted to 1.078 billion yuan. A 550 million yuan rise in prices of raw and processed materials and fuel accounted for 51.02 percent of total excess costs. Statistics show that taking 1978 prices of raw and processed materials as a base, the 10 year cumulative increase in prices amounted to 7.369 billion yuan. During the same period, however, the price of processed steel products rose only 2.987 billion yuan. Thus, the 10 year net loss in profits was 4.382 billion yuan. As a result of the rise in prices of raw and processed materials during the first half of 1990, it is expected that profits for 1990 will decrease by 900 million yuan. This shows that the too rapid and too violent rise in prices of raw and processed materials and fuel is the main reason for the slide in the Shanghai steel industry's economic returns.

**B. The Interest Factor** Interest payments have steadily increased, increasingly becoming the main factor propelling a rise in costs. Ten years ago, more than 70 percent of the working capital that the Shanghai steel industry needed for development came from the state. Today, however, an overwhelming majority of the money required for working capital comes from bank loans. In addition, the effect of "triangular debt," further increases dependence on bank credit. In addition, interest rates on bank loans have tended to rise in a straight line. Thus, these three factors have resulted in a steady expansion of enterprises' interest payments. Shanghai Steel paid a total of 117,400 yuan in interest in 1987, and 135,070 yuan in 1988. By 1989, the figure shot up to 198,290 million yuan. Interest payments were 57.44 million yuan greater in 1989 than in 1988, accounting for 5.33 percent of the excess cost payment. Statistics show that cumulative interest payments for a six year period beginning with 1983 were 620.3 million yuan.

**C. Too Rapid Increase in Wages and Bonuses Increasingly an Important Excess Cost Payment Factor That Cannot Be Ignored.** In 1988, wage and bonus costs increased 12 million yuan, or 1.56 percent of excess cost payments. In 1989, wage, bonus, and subsidy costs increased 33.45 million yuan over 1988, amounting to 3.10 percent of excess cost payments. The two year increase was 45.45 million yuan for a 178.75 percent increase in 1989 over 1988.

**D. Trend Toward Increase in Enterprise Tax Burdens.** With the deepening of tax system reform in recent years, enterprises' tax burdens have steadily risen as well. Metallurgical industry taxes rose from 700 million yuan in 1987 to 836 million yuan in 1989. This showed up in the following three regards. First, profits declined due to a switch in kinds of taxes paid. In 1988 alone, the product taxes of some enterprises were changed to a value added tax, 4.15 million in profits being switched to taxes. Second, added value taxes are figured irrationally. Quite a few raw and processed materials cannot be deducted from taxes on processed steel products, making the tax burden overly heavy. Third, new taxes have been levied. For example in 1989, special taxes on the burning of petroleum, taxes on real estate, taxes on vehicle and



ship licenses, and taxes on printing, which go into costs, amounted to 18.53 percent of profits realized for the year.

*E. Capital Shortage Makes Normal Production Impossible and Hurts Increase in Returns.* The capital shortage shows up mostly in the following ways: As a result of price rises and other factors, the amount of quota circulating funds used in the metallurgy industry has steadily risen. It was 1.914 billion yuan at the beginning of 1988, 2.327 billion yuan in 1988, and 2.488 billion yuan at the end of 1989. By the end of June 1990, it shot up to 5.574 billion yuan. However, sources of funds became scarcer and scarcer. Since the "double tight" policy (tight fiscal and monetary policies), in particular, bank credit became increasingly hard to obtain. This, plus the "triangular debt" difficulties mean an increasingly sharp conflict between supply and demand for capital. The worsening availability of capital caused internal payments problems during 1988, and plan deliveries of 1.1 million tons of blast furnace pig iron were cut 300,000 tons, only 800,000 tons actually delivered. State contracted deliveries of pig iron for the year were cut 400,000 tons because of the capital shortage. In 1989, there was never more than several days supply of pig iron on hand. Once used up, there was no more. The shortage was critical. For the year as a whole, the pig iron shortage meant 127,000 tons less of steel was produced. In many enterprises, production capacity lay idle as work came to a standstill while awaiting supplies, forcing overhauls ahead of schedule.

*G. Increased Rigidity of Social Obligations Also a More Important Factor Preventing a Rise in Returns.* These obligations included assessments and raising of funds under various names. For the retirement-financing fund alone, the figure was 52.69 million yuan in 1987, 62.91 million yuan in 1988, and 73.6 million yuan in 1989 in a year-by-year increase for a three year total of 1,892,000 yuan. In addition, the increased educational fees, the unemployment insurance fund, and the nonstaple food fund also totaled more than 25 million yuan in 1989.

## 2. Subjective Reasons

*A. Slow Technical Progress, a Rise in Materials Consumption, and a Decline in Quality Prevented Steady Increase in Economic Returns.* By rights, a rise in prices of key production elements such as raw and processed materials should be offset by advances in technology and a decline in consumption. However, in recent years, not only was there no decline in some consumption, but rather a year-after-year rise. For example, in 1988 increased costs reached 15 million yuan because of the rise in consumption of some materials; increased consumption of 3,127 tons of ingot blanks due to a decline in the overall steel product rate from 81.88 percent in 1987 to 81.28 percent in 1988, which added 1,564,000 yuan in costs. At the same time, the superior quality of Shanghai steel's products faced challenges. Baotou had already eclipsed Shanghai Steel in the quality of its cold steel plate and seamless steel tubes. At the same time, the

quality of Shanghai Steel's silicon steel and hot rolled steel plate also lagged behind that of Capital Steel and Wuhan Steel respectively. Thus, the superior quality of Shanghai Steel's products, which had been built up over a long period of time, had very largely been, or was in process of being, gradually lost. Therefore, in a certain sense, the existing market sluggishness in sales of Shanghai Steel's products lies in the make-up of its products, and the softness of the market lies in costs and quality. In addition, the rise in consumption of materials, the decline in quality, and slowness in updating products inevitably led to a weakening of the role of technical progress in improving economic returns. According to our statistics, of the 800 million yuan increase in profits during 1988, only 95 million, or 10.625 percent, was attributable to technical progress (including the use of new technology, new skills, readjustment of the production mix, and improvement of management). In 1989, only 1,298,100 yuan of the 420,300,000 yuan in increased profits, or 30.88 percent, was attributable to technical progress. There remains a very great gap between this and the more than 60 percent contribution that technical progress makes to economic growth in advanced countries abroad.

*B. While Investment Increased, Input is Vastly Greater Than Output, the Return on Investment Being Overly Low.* Comparing fraternal enterprises, new investment made during the past 10 years was large. During the 10 year period, investment in technological transformation alone amounted to more than 2 billion yuan. However: (1) because investment in new projects was generally too great, generally by as little as several tens of million yuan or as much as between 400 million and 500 million yuan, and since investment risk was substantial, a policy error could cause tremendous losses. (2) Anxiety to get started on new projects, ignoring the technical transformation of old equipment resulted in the steady aging of technological equipment. Furthermore, a new project often meant a new branch plant, thereby hurting improvement of the overall quality of Shanghai Steel's equipment. (3) Imported equipment was not technologically advanced. It was primarily second hand equipment. Furthermore, it was neither economic nor suitable. Imported projects and equipment were both unable to create foreign exchange from product exports for Shanghai Steel, and also unable to substitute for imports. (4) Projects were seriously over budget. The actual investment in virtually every new project exceeded the budgeted investment. Not only did this create a shortage of capital for technological transformation, but it also had an adverse effect on both the project going into production on time, and showing an early return, which increased the debt repayment burden. Examples were the Shanghai Steel No. 3 Plant's 3.3 M medium thickness steel plate project, and the Shanghai Steel No. 5 Plant's 300,000 ton alloy bar and wire rod project, neither of which could be completed on time for lack of funds. Thus, returns on investment have been far from ideal during the past 10 years. Another case in point was Shanghai Steel's No. 1 Plant 500,000 ton steel rolling workshop, which not only

brought no returns following its completion, but has had cumulative losses of nearly 100 million yuan since it was completed and went into production. Other projects have had the same problems. They either lost money or showed a minuscule profit. Projects showing economic returns are very few. This has restricted the healthy development of the Shanghai steel industry and steady increase in economic returns.

### 3. Special Reasons

Objectively speaking, other steel enterprises throughout the country likewise face, in varying degrees, the eight problems mentioned above. So, why was it that the Shanghai steel industry had such a rapid slide in economic returns and to such a great degree, while the same thing did not happen in other fraternal enterprises? We believe this is attributable to the following three reasons:

First, by comparison with other fraternal enterprises in the country, Shanghai steel itself sells an overly low proportion of the processed steel products it produces. Its command plan percentage is overly high. This hurts both sales and profits, thereby also preventing an increase in economic returns. Generally speaking, the price of finished steel products that a plant sells itself is approximately 700 yuan per ton higher than the state plan price. Thus, the Shanghai steel industry loses a very big piece of profit. For example, in 1989 Shanghai steel enterprises themselves sold 177,200 tons of processed steel products, or only 4.15 percent of the 4.266 million ton output for that year. During the same period, other enterprises of the same kind in the country themselves sold between 15 and 20 percent of their output. At this rate, Shanghai could have earned an additional between 321 and 473 million yuan per year in profit.

Second, Shanghai steel's self-sufficiency rate for pig iron is extraordinarily low. It is dependent on domestic and foreign market supply for more than 90 percent of its pig iron. In addition, 100 percent of its energy is also purchased from outside. However, the pig iron self-sufficiency rate for the eight other major steel producing mills in the country are higher than Shanghai's. They are fully capable enterprises with their own pig iron bases that are largely able to provide for themselves. Furthermore, most of them also have steady coal and other energy supply bases, or are close to energy producing areas. Consequently, they have largely been able to avoid, or have been little affected by, the numerous rises in prices of pig iron and coal that they use as raw and processed materials. Clearly, the effect on Shanghai of rises in pig iron prices has been much greater than for other fraternal enterprises in the country. None of the other eight steel mills has been comparably affected.

Finally, because of its better former economic returns, Shanghai's base figures for contracting are much higher than those of other fraternal steel mills in the country. An overwhelming majority of profits are paid to the state, enterprises retaining too low an amount. Consequently, enterprises frequently are able only to maintain

simple reproduction. They are unable to make the technological renovation and transformation of old plant. This hurts improvement of returns. According to industrial general survey statistics, 96 percent of all of Shanghai Steel's equipment is at the ordinary or antiquated level. Eighty-nine percent of 64 pieces of key equipment were at the ordinary or antiquated level for the country. This is truly alarming and hard to believe, but it is an absolutely true fact.

The foregoing analysis shows numerous reasons for the slide in economic returns of the Shanghai steel industry. The situation is fairly complex. Consequently, the remedial actions to be taken must naturally be at various levels and in many regards. Only a multiple approach can genuinely and effectively reverse the grim situation of a downhill slide of Shanghai's steel industry to put it on the track of a benign cycle in economic development.

#### **(1) Both the National and Shanghai Government Must Make New Price, Interest Rate, Tax, and Foreign Trade Policies to Create a Better External Climate in Active Support for the Healthy Development of Shanghai's Steel Industry.**

*A. Gradual Readjustment and Straightening Out of Price Policies.* It must be said that prices are the single most important reason for the fluctuation in and the decline of the Shanghai steel industry. Therefore, when formulating future pig iron and other price policies, both the price ratio between raw and processed materials and products, as well as the price ratios among various products must be considered. When the rise in prices of raw and processed materials is too great for an enterprise to digest, losses result. Even when prices of finished steel products are forced to rise in proportion and to the same degree, such an adjustment of prices cannot play a role in advancing economic development. Then, policies have to be re-studied. In addition, when readjusting finished steel product prices, the current policy whereby the profit rate on product costs is the sole basis for readjusting prices has to be changed. Losses resulting from policies must be distinguished from operating losses. When losses result from policies, a rise in prices should be permitted even when the profit rate on costs is less than five percent. Conversely, when bad management leads to a rise in costs, no price rise should be considered when the profit rate on costs is less than five percent.

*B. Institute Financial Policies Tilted Toward the Steel Industry.* Loan interest rates should be suitably lowered. Since interest rates are an important economic lever, they should be used for the purpose and with the goal of advancing economic development. Changes upward or downward in interest rates should accompany changes in the economic situation. The former too low interest rates were bad, but the straight line rise in interest rates now is likewise not in keeping with economic laws. At the same time, inasmuch as the scale of investment in the steel industry is too great, the construction cycle is long, and the steel industry is a capital-intensive industry, the state should apply differential interest rates, providing low

interest loans to the steel industry. In addition, it should distinguish among enterprises and products in providing credit.

*C. Active Development of International Markets and Expansion of Steel Product Exports, the Key Being Reform and Perfection of the Foreign Trade System.* For some of the special processed steel and steel alloy products that the city's metallurgy industry produces, foreign sale prices are higher than domestic sale prices, and the cost of exporting to earn foreign exchange is relatively low. Such goods are quite competitive in international markets. Nevertheless, because of difficulties with plan norms, supplies of raw and processed materials, and the organization of production, amounts exported have been consistently small. The annual export output value of the entire metallurgy industry has always hovered around the \$50 million mark, far lower than for the textile and electromechanical industries. In this regard, we feel that not only must pertinent prevailing policies be applied well, but actions must also be taken in the following regards: First is the need to adopt Sino-foreign joint ventures as a method to be used with enterprises having requisite conditions to hasten the use of foreign capital as a means of remedying the shortage of construction funds. Second, future technology imports should be linked to their ability to produce foreign exchange-earning exports. Permission should not be granted for the importation of projects whose products cannot earn foreign exchange. Third, enterprises should be given greater autonomy over exports. Enterprises meeting certain requirements should be permitted to manage exports themselves. In addition, the amount of foreign exchange that enterprises retain should be increased as a means of maintaining and arousing enterprises' interest in exports to earn foreign exchange.

*D. Once All Other Conditions Have Been Met, Government Financial Reform Appears Indispensable.* This is an important integral part of overall macroeconomic policy that directly or indirectly affects enterprises' economic behavior. Given the realities of Shanghai Steel, we believe that measures should be adopted, efforts made in the following five regards:

(1) Revive government financial control over enterprises' working capital, and re-set enterprises' quota working capital to reduce enterprises' burdens in paying interests. The working capital quotas that enterprises use today were set in 1983. As a result of the steady expansion in the scale of economic activity and the rise in prices, these quotas are entirely divorced from objective reality and prevailing needs for economic development. Additions to enterprise working capital are seriously inadequate. Enterprises have to get bank loans to get by. This, plus the steady rise in interest rates, means that interest payments become an unbearable burden for enterprises. Thus, not only should working capital quotas be newly set, but the function of government finance in building socialism should also be exercised,

allowing government finance to take part again in supplying working capital. This could both ease the banks burdens, and could also lighten enterprises' interest burdens.

(2) Reform of the depreciation system to increase enterprises' sources of funds for renovation and technological transformation. The conflict that exists today is that the replacement price of fixed assets is at serious variance with their original value. The replacement value is far higher than the original value, so existing depreciation simply cannot compensate for their replacement value. In addition, the five percent or even lower depreciation rate simply cannot offset the double digit inflation. As a result, the depreciation funds withheld are greatly devalued. The conflict between wear and tear and inadequate compensation is intense. Another matter is that on the basis of the prevailing tax policy, 15 percent of the depreciation funds that state-owned enterprises withhold have to be tendered to the state for an energy and transportation fund. As a result, the conflict caused by insufficient compensation for the reproduction of fixed assets is made more complex and sharper. In fact, most enterprises in the Shanghai steel industry today have an extremely weak capability to replace their fixed assets, and some have entirely lost it. Thus, the state should resolutely institute a fixed assets replacement price system, suitably raising depreciation rates, and instituting a special depreciation system for the steel industry, particularly for certain pieces of key equipment in that industry. At least, it should increase depreciation rates to more than 10 percent. At the same time, it should abolish the policy of collecting 15 percent of depreciation funds for energy and transportation.

(3) Widening of sources of technology development funds. Prevailing policy permits enterprises to withhold no more than one percent of their sales revenues for technical development, and then only provided they ensure fulfillment of their government revenue payment quotas and do not readjust contract base figures. Shanghai's metallurgy industry withheld 15.45 million yuan in 1988, and 26.63 million yuan in 1989. Funds for technical development withheld for the two years came to 42.08 million yuan, far from the amount needed to meet needs for the development of new products. Thus, we must: first, resolutely require those enterprises that have not withheld funds, nor withheld sufficient funds to withhold one percent of their sales revenues for technical development expenses. Second, the percentage of technology-development expenses should be increased from one percent to between two and five percent, or even 10 percent.

(4) Special purpose funds, particularly funds for the development of production, should truly be used for the special purposes for which they are intended. Special purpose funds are a prerequisite and an important support for enterprises' simple reproduction and the expansion of reproduction. For various reasons, they are

currently far from being able to satisfy needs for renovation and technical transformation, and the development of production. Moreover, even in these circumstances, they are not used for the special purposes for which they are intended. They are frequently diverted when circulating capital is in short supply. In 1989 alone, 70 million yuan of dedicated funds were revolving as circulating capital. In addition, production development funds are also often too much converted to bonus funds and welfare funds. Government financial units should do more to administer and supervise dedicated funds setting up special savings accounts for their use for specific purposes.

(5) Readjustment of contract base figures, increasing the amount of profit retention. As a result of the too high contract base figures of recent years, quotas are too high, and after-tax profit retention has declined tremendously. In 1988, retention was only 450 million yuan, but by 1989 retention was only 160 million yuan in a 61.4 percent decline. After paying 25 percent into the energy and transportation fund and the budget regulation fund, profits retained during 1988 and 1989 were only 353 million yuan and 120 million yuan. Profit retention in 1988 was 2,998 yuan per capita, but in 1989, it fell to 1,132 yuan. In the most important mainstay enterprise plants numbers 1, 3, and 5, where 54 percent of all personnel in the whole bureau are located, profit retention was only about 500 yuan per capita. This was not enough even for payments at the lowest level into bonus and welfare funds, and the fund for development of production no longer has a source of money. Because of losses resulting from industry operation during the first half of 1990, eight enterprises throughout the industry have an award fund deficit totaling 16.15 million yuan. Therefore, we believe that a slight readjustment of contract base figures to increase enterprises' profit retention level is imperative.

In addition, government financial units must also gradually perfect loan repayment methods, suitably liberalizing loan repayment times and limits. At the same time, it is also necessary to perfect the current construction tax system to support and spur on the development of key industries and key products, and gradually make a transition to an investment oriented tax.

## **(2) Readjust and Optimize Shanghai Steel's Own Enterprise Organization Structure to Lower Costs and Increase the Economies of Scale.**

The irrational enterprise organizational structure within the Shanghai steel industry is increasingly becoming a main factor restricting increase in returns. The size of enterprises is the most conspicuous problem, none of Shanghai's steel enterprises being at a proper economic scale today. In the steel-smelting industry, the highest steel output in five steel-smelting enterprises is only 2 million tons, and the biggest has a capacity of only 12,000 tons. However, today's steel industry is a technologically highly developed and mature traditional industrial sector characterized by continuity and large scale, as

well as highly concentrated and large batch production. The benefits of scale show up particularly clearly in this industry. It is generally acknowledged throughout the world today that the optimum economic scale in the steel industry is between about 8 million and 10 million tons. Clearly, at this rate, Shanghai steel's total steel output has not reached the economies of scale, never mind other enterprises. Unwittingly, this causes the loss of economic returns on a huge scale. Therefore, readjustment of enterprises' organizational structure, restraining the pernicious development of "small but all-inclusive," avoiding redundant imports and redundant construction, working together in attacking key problems, and hastening the pace of development of new products and new techniques in line with relationships within the steel industry to make fullest use of the total superiority of Shanghai Steel is imperative. This means that future plans to be brought out for Shanghai Steel's system reform will use plant numbers 1, 3, and 5 as turnkeys for the founding of three groups of steel corporations. In a certain sense, this is a little more advanced than the former system. However, things to be guarded against in the future are as follows: First is to bind tightly together those enterprises having inherent cooperative relationships so that no others will be able to join, and none will be able to withdraw. Second, each of the three corporations should run its own affairs, and make a transition to competing with each other for a weakening of Shanghai Steel's total competition. We believe this to be a course in future work that merits continued exploration.

## **Light Industrial Output Value by Area in 1st Quarter**

*HK1804102991 Beijing CEI Database in English  
18 Apr 91*

[Text] Beijing (CEI)—Following is a list of the light industrial value by area in China in the first quarter of 1991, released by the State Statistical Bureau:

Area	(Unit: 100 million yuan)	
	1-3/91	Change Over 1-3/90 (pc)
Total	2,555.25	15.9
Beijing	72.22	11.8
Tianjin	66.05	2.8
Hebei	94.65	12.9
Shanxi	27.33	7.6
Inner M	21.88	15.8
Liaoning	94.30	7.6
Jilin	46.48	9.9
Heilongjiang	66.59	14.5
Shanghai	209.99	10.1
Jiangsu	328.36	16.3
Zhejiang	194.45	27.0
Anhui	73.47	11.3
Fujian	70.89	13.5
Jiangxi	40.67	16.0

Area	(Unit: 100 million yuan)	
	1-3/91	Change Over 1-3/90 (pc)
Shandong	214.18	14.3
Henan	95.49	16.9
Hubei	105.96	12.1
Hunan	64.72	11.7
Guangdong	309.64	30.2
Guangxi	61.47	10.4
Hainan	10.31	19.5
Sichuan	120.38	17.0
Guizhou	18.41	4.9
Yunnan	51.08	16.6
Tibet		
Shaanxi	41.07	13.5
Gansu	17.63	7.0
Qinghai	3.13	0.6
Ningxia	3.99	-3.9
Xinjiang	30.25	39.7

Note: Industrial output value is measured in 1990's constant yuan

### Output of Raw Materials Jan-Mar 1991 Reported

HK2204093891 Beijing CEI Database in English  
22 Apr 91

[Text] Beijing (CEI)—Following is a list of the output of raw materials in the first quarter of 1991, released by the China State Statistical Bureau:

Item	Unit	1-3/91	1-3/90
Iron ore	10,000t	3958.1	3734.7
Pig Iron	10,000t	1569.8	1424.2
Steel	10,000t	1663.0	1567.3
Rolled steel	10,000t	1289.82	1238.18
Ferro alloys	10,000t	50.84	52.20
Coke	10,000t	1297.56	1202.78
Ten non-ferrous metals	10,000t	57.98	51.77
of: Copper	10,000t	12.88	13.45
Aluminium	10,000t	22.32	19.55
Copper products	10,000t	11.11	9.41
Aluminium products	10,000t	9.37	6.82
Alumina	10,000t	34.75	32.04
Sulphuric-iron ore	10,000t	250.32	231.21
Phosphorus ore	10,000t	407.43	400.10
Timber	10,000c.m.	1330	1381
Artificial Board	10,000c.m.	50.09	40.35
Cement	10,000t	4611.0	3733.7
Plate glass	10,000c	2065.87	2045.96

Notes: M.M.—Million meters, C.M.—Cubic Meters.

## SMALL-SCALE ENTERPRISES

### Jiangsu Case Study in Rural Industry Problems

91CE0456A Beijing ZIRAN ZIYUAN in Chinese No 1,  
Jan 91 pp 61-65

[By Yang Guishan (2799 2710 1472) of the Nanjing Geography and Lakes Institute, Chinese Academy of Sciences: "Problems Arising Out of Rural Industrial Growth and the Future Direction of Growth—Jiangsu as a Case Study"]

[Text] Since 1978, rural industries have played an enormous role in the national economy. With the swift momentum of their growth, their flexible methods of operation, and the variety of ways in which they are able to meet with emergency situations, they have rapidly transformed the backward appearance of China's countryside and revitalized the rural economy. Nevertheless, we also have to realize that in the course of growth, there have been many contradictions and problems. This has been especially the case with improvement and rectification measures the state adopted. They have made these contradictions and problems increasingly evident. Consequently, how we resolve these problems, guide rural industry in the correct direction, and comply with state requirements to effect a proper disposition of resources that are in short supply is extremely urgent.

### I. Principle Problems Arising Out of Rural Industrial Growth

Rural industrial growth has essentially been without state investment, and their supply of raw and semifinished materials and sale of products have not been brought under the scope of state planning. This has given them flexibility, fairly wide leeway, and short-term quality. However, owing to the limitations of the objective conditions of their regions, their information, and they themselves, indiscriminate growth has been large. Consequently, in the course of development, they have been unable to avoid some serious problems—problems which not only have seriously hindered their own growth but which have also had a large detrimental effect on coordinated growth of the regional economy. This has been manifested in the following several aspects.

#### 1. Serious Waste of Resources Among Industrial Structures With a High Degree of Similarity

Because rural industries suffer from many limitations in their objective conditions and lack needed guidance and scientific management, they often, on the basis of sheer numbers, rush headlong into operation, creating serious dislocations in industrial structure and in the disposition of resources. First, the similarity of rural industrial structure and product mix with that of urban industry, creates, in the same economic regions, a situation in which rural industry and urban industry compete for electric power, raw and semifinished materials, and



markets. When production conditions are good and resources are being used at a high rate, this causes large enterprises to operate seriously under capacity and sometimes even to cease production. Furthermore, operational efficiency and resource utilization ratios of rural industries, which account for a large amount of funds and raw and semifinished materials, are quite low. This wastes resources. For example, in Jiangsu in 1983, rural industries consumed in total energy the equivalent of 7.6 million tons of coal, approximately 38 percent of all the energy consumed by industry throughout the province. However, that same year, output value of rural industries was only 28 percent of the province's total industrial output value. In looking at the 100-million yuan output value of energy consumed, we see that the average for the entire province of Jiangsu was the equivalent of 41,000 tons of coal, whereas for the rural industries, it was 48,000 tons. Compared to the average for the entire province, energy consumption of rural industries was equivalent to approximately 7,000 tons of coal. Second, the phenomenon of similar structure is also extremely prominent in the industrial structures between different rural areas. In the region of Suzhou, Wuxi, and Changzhou, almost every township and town has set up a closed industrial system with a complete array of industries. For example, Jiangyin City built 70 motor vehicle assembly plants within one year. After they went bankrupt, 45 woolen mills suddenly sprang up. The result has

been the creation of excessive market competition and ups and downs in the economy. Finally, the indiscriminate plunder of extractive resources has created an extreme waste of resources. Owing to the pursuit of partial and immediate interests, when local natural resources (for example, coal, minerals, and lumber) are exploited, every person and every collective rush headlong to spread out wherever they please and engage in blind exploitation. This not only seriously affects normal, organized exploitation by the state, it destroys an enormous amount of limited resources.

## 2. Rapid Growth and Low Economic Efficiency

Output value indicators for rural industry have always been a principle basis for assessing the achievements of rural cadres. The profit motive drives rural government in the unilateral maximization of output value. This is why, in recent years, while rural industry has been showing extraordinary increases in output value, the indicators for economic efficiency have been declining. Take Jiangsu as an example. From 1983 to 1986, the annual rate of increase for rural industrial output value was 41.1 percent, a much higher average rate of increase than registered by state-operated industry in the province for the same period. During the same period, net profits tax on fixed assets originally valued at 100 yuan dropped from 47.8 yuan to 29.3 yuan (Table 1), a 9.3 percent decrease annually.

**Table 1—Comparison of Principle Economic Efficiency Indicators for Rural Industry in Jiangsu Province**

Year	1983	1985	1987	1988
Net profits tax on fixed assets originally valued at 100 yuan (in yuan)	47.8	47.7	27.3	29.3
Expenses for each 100 yuan of total revenue and expenditure (in yuan)	82.9	86.3	91.0	91.4
Production expenses for each 100 yuan of total revenue and expenditure (in yuan)	72.8	76.4	80.6	81.6

Source: 1988 Socio-Economic Statistical Yearbook for Jiangsu Province, Jiangsu Provincial Bureau of Statistics, 1989

The main reasons for this were: (1) Almost the entire amount of raw and semifinished materials consumed by rural industries was market regulated. Because raw and semifinished materials experienced large price increases, production costs climbed and enterprise efficiency dropped. If they were to achieve their output value targets and increase profits for the rural collectives, their only recourse was to accelerate the growth rate. (2) In the last several years, the money supply overstimulated production and consumption, creating a false economic prosperity and providing a basis for rural industries to focus on manufacturing as a means to speed up growth. Their output value increases relied too much on large amounts of extensive investment (including investments of human labor and materialized labor) and less on technological advances. Extensive management to this extent inevitably results in low efficiency. (3) The high degree of investment expansion that was initiated made it impossible to rely on funds accumulated by enterprises themselves. Consequently, bank loans were used for the

majority of investment in rural enterprise fixed assets and enterprise circulating funds. The debt management situation became increasingly serious. For example, in Wuxi City alone, the total amount of debt for rural industries reached 4.8 billion yuan. The burden of repaying principle and interest was too great for the enterprises. Added to this were excessive nonproductive spending and an expansion of consumer funds. Inventory of materials, slow-selling goods, and unpaid accounts receivable ate into profits. These were bound to create a drop in enterprise economic efficiency.

## 3. Widespread and Increasingly Severe Environmental Pollution in Rural Areas Being Created by Indiscriminate Scattering of Sites

In contrast to the distribution of urban industry, that of the rural area is too scattered. This is most obvious in the region of Suzhou, Wuxi, and Changzhou, where rural industry has developed the most. Fires are going in every village, and smoke is everywhere. The harmful effects are

utilized in these areas to implement rational development. One or several industrial and commercial development small regions should be started up within a township (or town) and preferential policies provided in order to gradually guide rural industry toward a pattern of strongpoint distribution. At the same time, we must combine building a rural land system with clear and definite property rights to land, the establishment of a complete land market and land exchange system, and destruction of the present widespread system of engaging in both agriculture and industry, thereby enabling peasants leaving the land to concentrate it in the hands of peasants or households specializing in agriculture who can carry out scale production and fully utilize scarce land resources. This will result in the simultaneous implementation of agricultural scale management and rural urbanization. (2) In areas which lack a flourishing rural industry, such as the area of Xuzhou, Huaiyin, and Lianyungang, it must be centralized at the township and town levels. In principle, there should be no new projects at the village level and below. The focus should be on development in rural market towns and expediting their construction. We must assimilate the lesson of Suzhou, Wuxi, and Changzhou of being overly dispersed, thereby saving on land and reducing pollution.

### **3. Strengthen Environmental Protection and Prevent the Rural Environment from Further Deterioration**

The principle rural industry polluters are the ones involved in printing and dyeing, papermaking, electroplating, industrial chemicals, and small-scale petroleum refining, as well as products made from mercury, lead, arsenic, and asbestos. The main pollutants are sewage, sulfides (from burning coal), and fluorides (from making bricks and tiles). Sewage is the most serious pollutant. For example, in 1984, the sewage released by Jiangsu rural industry accounted for 94 percent or more of the economic losses caused by the total amount of pollutants from rural industry. Consequently, the focus of rural environmental protection is on sewage prevention. We especially have to strengthen protection of water sources used by industry and agriculture and by the people. From now on, rural industry must develop in a clear and definite direction. As a matter of principle, we must not permit the establishment of enterprises which seriously pollute. We especially must control the movement to the countryside of urban industries which pollute. This will avoid spreading urban pollution to the rural areas, avoid the constant expansion of polluted areas, and avoid making control more difficult. New enterprise construction should be relatively concentrated. This will prevent it from being scattered to new locations and make its pollution easier to control. We must step up control of enterprises that are already polluting. Those that cause serious pollution and are difficult to control must be closed or their production transferred. State and local government must focus on providing rural industry with regulations on environmental control in order to guarantee that the vast rural areas will have a relatively clean environment.

### **4. Do a Good Job of Correctly Handling the Relationship Between Rural Industry and Basic Agriculture**

Agriculture is the basis for development of rural industry. Stable agricultural production, especially stable grain production, benefits, in a macroeconomic manner, the stability and growth of an entire regional economy. In the past several years, as rural industry flourished, agricultural production in many regions, for a number of reasons, went into a huge downhill slide and, in varying degrees, affected the coordinated development of the rural economy. The key to resolving this matter lies in the proper handling of the relationship between the growth of rural industry and agricultural growth. First, rural industries must acquire an attitude of serving agriculture, actively provide it with various types of capital goods for its use, and appropriately apply a certain portion their profits to be used for agricultural production, thereby increasing agricultural investment. Second, we must adopt appropriate inclination policies to guarantee that a certain amount of the work force is engaged in agriculture. Although it is an inevitable trend of rural industrialization and rural urbanization for agricultural labor to shift toward nonagricultural work, owing to the presently rather low level of agricultural productivity, too large a shift in the work force could affect the growth of basic agriculture. We, therefore, must first emphasize properly grasping basic agriculture. We absolutely cannot sacrifice it to the demands of rural industrial growth.

Of course, when dealing with the relationship between rural industrial growth and agricultural growth, we cannot just emphasize agricultural production and blindly blame rural industry. We recognize that the bases of some rural industries are relatively good. In areas where the potential of basic agriculture is not great (for example, the area of Suzhou, Wuxi, and Changzhou) and where rural industry is able to produce goods which are strongly competitive on the domestic and foreign markets, which are able to earn foreign exchange and large profits, and which obtain an even larger economic benefit, then, with the proviso that basic self-sufficiency in grain is guaranteed, it would really not be improper to bring in from the outside a certain amount of feed grain and sideline products, as well as a portion of commodity grain. However, we must look at the situation from a regional and macroeconomic point of view and implement large-scale policies in which industry supports and services agriculture. We must handle with caution the relationships between regions that are at different levels of development. The development of rural industry and agriculture of an entire region must be coordinated.

### **III. Conclusions**

After having experienced several years of soaring development, rural industry, because of improvement and rectification measures adopted by the state, is facing new assaults and new opportunities. From now on, whether rural industry can grasp the opportunity for further growth depends entirely on whether we can correctly

The above two aspects of the issue constitute a major reason why for the past several years basic agriculture has been at a standstill. Some areas have even seen basic agriculture decline. For example, although in the area along the Changjiang where rural industry has flourished (that is, the area of Suzhou, Wuxi, and Changzhou and the cities of Nanjing, Zhenjiang, Yangzhou, and Nantong) the rate of increase for rural industrial output value was 30 percent or higher between 1978 and 1987, the position of agriculture in the province as a whole obviously weakened. Although total output of grain in 1987 increased by one-tenth, its proportion in the province declined from 43.3 percent in 1978 to 42.1 percent in 1987. Total output of cotton not only did not increase, it dropped by one-half or more. Its proportion in the province went from 56.1 percent to 28.2 percent. The region of southern Jiangsu and Tai Hu in the early seventies was still a commodity grain base for the whole country. By the eighties, with readjustments in agricultural structure and the rise of rural industry, the region's capacity to supply commodity grain had obviously declined. For example, beginning in 1985 Wuxi City already lacked self-sufficiency in grain. Each year, the city has had to bring in approximately 50,000 tons from the outside. The Suzhou region has also had to bring in grain each year for use as feed. This likewise has led to a decline each year in the capacity of agriculture to supply raw materials such as commodity grain to light and textile industries. If measures are not promptly adopted, agriculture could continue its downhill slide.

## II. Direction of Future Growth for Rural Industry

The future of rural industry lies in a clear and definite direction of growth. Readjusting and reforming itself, promoting enterprise management and technological progress, and constantly improving enterprise economic efficiency and the resource utilization rate will bring about an increasingly rational industrial structure and product mix.

### 1. Reform of Rural Industrial Structure and a Rational Disposition of Regional Resources

Serious difficulties such as the market slump that rural industry now faces, the short supply of resources and energy, and the large increases in the price of raw and semifinished materials have made enterprise competition more intense. The inevitable result will be the dominance of quality and elimination of what is inferior. Therefore, readjusting rural industrial structure and urging enterprises to raise the quality of their products and their standards and to move themselves as quickly as possible out of the downturn is also an inherent requirement for the growth of rural industry. During the course of readjusting rural industrial structure, we first must integrate it in the geographical distribution of urban industry. The processing of agricultural sideline products and labor-intensive work not requiring high levels of skill should be left to rural industries. Gradually, a technology-intensive urban industry will, with limited manpower, material resources concentrated in certain highly

technical sectors, and high managerial standards, turn out high-quality, precision goods. At the same time, encouraging rural industries to rely on local resources and markets, and to actively develop "three-local" enterprises, that is, those which draw on local resources, do local processing, and make local sales, and industries that support agriculture (including processing of agricultural sideline products, manufacture and repair of farm machinery, and production of such capital goods as agricultural fertilizers, agricultural chemicals, and plastic sheeting) should gradually bring about a rational integration of regional industry. Second, rural industries which have already been set up must, as soon as possible, establish stable economic associations and cooperative relations. They must be encouraged to willingly play a supporting role, to take the initiative in linking up with foreign trade and with big industry, and to develop products supported and encouraged by the state and needed by the market, thereby promoting their integrated development. Finally, a small number of enterprises which have a high consumption of materials and energy and whose products are inferior in quality and high in price and enterprises which are extracting raw materials in a predatory manner must, without fail, cease operation and close or merge with other enterprises and change their line of production. This is necessary to economize on raw and semifinished materials and to protect an increasingly deteriorating rural environment and limited natural resources.

In the past several years, the growth rate of rural industry has been too fast, investment in it has expanded abruptly, and its irrational industrial structure has exacerbated a serious waste of resources. At the same time, nonproductive expenditures and growth of consumer funds have exceeded the capacity of enterprises themselves to cope. This is why we will have to strengthen both macroeconomic and microeconomic management of rural industry, bring its high growth rate down to a manageable level, firmly reduce the amount of investment, emphasize the intensive form of enlarged reproduction, and improve the capacity of enterprises themselves to accumulate funds for use in expanding and achieving smooth growth.

### 2. Appropriate Readjustment, Rational Distribution, and Improved Urbanization of Rural Areas

It is easy to see the drawbacks of rural industry being overly dispersed. However, because of the relative stability of regular industry's distribution, readjusting the whole pattern is neither necessary nor possible. Each rural industry must be dealt with according to actual circumstances of the local area. (1) In areas where rural industry is flourishing (for example, the area of Suzhou, Wuxi, and Changzhou) and where one-half or more of peasant annual income is derived from rural industry profits, peasant dependence on the land is gradually diminishing. This is making it possible for some to leave the land and engage in industrial production on a regular basis. This is why the strength of rural industry can be

country's village and town enterprises made a sudden surge and achieved vigorous development. They have become a noticeable force active in the international market.

town enterprises in various parts of the country had brought in a total of \$3.4 billion in foreign capital. Guangdong, Fujian, Jiangsu, Zhejiang, and other coastal provinces have also imported different types of

advanced equipment from Hong Kong, Taiwan, Europe, and the United States through various channels. This has not only upgraded the products, but also promoted technological advancement.

## FOREIGN TRADE, INVESTMENT

### New Trade System Merges Domestic, International Markets

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[Article by Zhou Zhaoxian (0719 5128 0341) and Gu Kejian (6253 0344 7003) of the Trade and Economics Department at the Central South University of Finance and Economics: "Restructuring the Foreign Trade Management System To Merge the Domestic Market With the International Markets"]

[Text] As economic theories evolve from Ricardo's theory on comparative cost to Heckscher-Ohlin's theory on factor endowment, people are beginning to pay more attention to the intimate relationship between the development of international trade and the development of the domestic economy. Historical facts provided by contemporary economic development prove that a country's economic development and the maturity of its domestic market are the basic premises that govern its foreign trade pattern and its overall price structure. These premises also govern the way the operation of a country's domestic market is often influenced by commodities imported from international markets with comparative advantages and by the subsequent indirect competition triggered by these imports. To successfully merge the domestic and international markets, we must continue to readjust the foreign trade policy environment—which is centered around the RMB [renminbi] exchange rate—in a timely and appropriate fashion to satisfy the needs of the organic integration and coordination of these two huge markets. We should also make the domestic market our foothold and consider comprehensively restructuring the domestic commodity circulation system. We should not be afraid to change the foreign trade system, which is more compatible with the traditional circulation system, and to construct a completely new commodity circulation system which aims to merge the domestic and international markets.

### I. Principles Behind the New Foreign Trade Management System

China has attempted several reforms of the foreign trade management system with respect to the responsibilities of the government and enterprises, the management style, the relationship between industry and commerce, and the mechanisms that link imports and exports. Yet, looking back at the history of these reforms, we must admit that so far, the restructuring of the foreign trade system has mostly been limited to partial readjustments within the framework of the traditional monopolized

foreign trade management system. In addition, when it comes to the commodity circulation system, there has been no in-depth effort to merge the domestic and international markets. If we look into the root cause of this, we see that apart from the fact that the circulation of foreign trade commodities is unique—which in itself tends to slow the progress of reform—and that the process of restructuring the economic system is disjointed in some areas, one very crucial reason is that we have not created a solid theoretical foundation for the foreign trade management system. Thus, we must lay down the following principles for the new foreign trade system that aims to link up the domestic and international markets.

1. The principle of comparative advantage, which considers long-term risks. The principle of comparative advantage says that nations and regions with different productive capacities can ultimately benefit from the international exchange of commodities. The formation, realization, and determination of comparative advantages can be measured in terms of different scales of time. If we focus on the country's own long-term production potential and changes in future trade conditions and arrange our foreign trade pattern according to the principle of comparative advantage, we can to the greatest extent avoid the negative effects that the international market has on the domestic economy, and we can also use this comparative advantage—which is stable, and which is the product of international division of labor—to accelerate the healthy development of the national economy. The principle of comparative advantage gives consideration to long-term risks, and it rejects in part the principle of static comparative advantage. However, its method of value comparison focuses on economic efficiency, which is consistent with the principle of static comparative advantage. It demands that the international market factor be brought into the output decisions of the country's many enterprises, into the price policy, and into the choice of output mix. By searching for our own comparative advantages, it forces enterprises to make the correct decisions when choosing between domestic sales that generate profits and foreign sales that earn foreign exchange. In turn, it allows them to realize the scale efficiency, structural efficiency, and technological progress which will make them economically superior. One unique characteristic in using the method of value comparison to decide specific economic policies is that the scope of comparison goes beyond the boundaries of material goods, enterprises, and sectors, as well as beyond the limitations on production quality which result from this. With enterprises' own interests acting as the bridge, it turns production quality—which cannot be quantified—into something which can be compared. This greatly expands the scope enterprises have to make decisions about their own activities. The principle of comparative advantage, which takes long-term risks into consideration, is fundamentally different from the guiding ideology of the traditional system, which only wants to supplement each other's needs. In the latter case, decision-making is based on whether

there is a surplus or shortage of use-value, and only those commodities which are strategically significant or very scarce in the international market can be imported. This causes foreign export plans to be based on import needs, so that exports ensure that there are sufficient funds to pay for imports. However, because of the absence of market mechanisms to shift the lack of use-value into price signals and relay these signals to the foreign trade decision-making system, it greatly limits the choice and the scope of foreign trade decisions. Moreover, serious shortages of material goods and products can also be relayed through each level of government, and the final decision confirmed by the department in charge in the central government.

2. The principle of market competition, which respects international values. The principle of utilizing market competition to promote economic development is fundamental to a commodity economy. In the circulation of foreign trade commodities, the basis for market competition, especially price competition, is a commodity's international value. In any exchange or mutually beneficial transaction that is within the scope defined by the comparative advantage principle, international value represents the best ratio of the real exchange. The buyer and the seller compete and strive to maximize their respective profits based on this ratio. The international value is derived by averaging the different national values, which is similar in character to how social value is derived. However, because the international circulation of factors of production is relatively difficult and the international value itself reflects national interests, the international value acknowledges the objective existence of a unique internal market structure, which includes state monopoly. Since each country's own national value is in fact the yardstick for measuring all domestic transactions of commodity circulation, enterprises face a transaction constraint imposed by international prices, which in turn are based on national values. This is what determines whether a country can make a profit out of commodity exchanges from its own overall viewpoint, and at the same time, it also shows how reasonable its domestic price structure is. Respecting international value, acting according to the country's goal of optimizing the composition of its foreign trade commodities, and formulating a new foreign trade system imply fully utilizing enterprises' potential to compete in foreign trade. Meanwhile, in the international market, since international value is derived from the national values of the countries taking part in the transactions, in the international market an individual country's national value reflects that country's overall interests. In addition, since the international circulation of commodities is made up primarily of commodity exchanges between enterprises or agencies, it must comply with the requirements of economies of scale and must maintain a certain volume of trade. Objectively, this will lead to different forms and degrees of monopoly, or established forms of monopoly may be retained. The new foreign trade system should guide this monopolistic behavior toward attaining economies of scale and adapting to the needs of

international competition, rather than toward seeking monopolistic profits at the point where average revenues exceeds marginal costs or marginal revenues. The new system should link the domestic and international markets via the circulation organizations' management behavior.

3. The principle of specialized management, which gives expression to society's division of labor. When the international exchange of commodities occurs in a buyer's market, if we implement a foreign trade management plan centered around exporting to earn foreign exchange, we will always face the functional defect of not having complete information about the global market whenever the scope of the market expands. On the other hand, the characteristics of China's supplies—such as China's export structure and the supporting production methods—require intermediate economic organizations in the circulation sector which have relatively stable procurement channels to synthesize scattered sources of goods and materials from different business sectors into batches of at least a certain size. This arrangement lowers the relatively high fixed cost of foreign trade operations to be shared out among per unit sales, and it also suits the characteristic where most foreign sales of consumer goods are handled by foreign trade agencies or enterprises. Thus, by linking the domestic and international markets through the management of export commodities, we should make the foreign trade sector's procurement and import enterprises' businesses more stable and enhance the business direction between these two types of enterprises. This should bring about the integration of these two kinds of businesses according to exchange rates at different times, according to society's average cost of obtaining foreign exchange, and as guided by the price factor, although the foreign trade system should not simply accept the price regulation all the time. In turn, we can establish a tightly knit, specialized operation system in foreign trade management and enhance foreign trade organizations' ability to correct the market's lack of equilibrium. This system of division of labor should satisfy society's demands for division of labor and determine a scope of business operations that complies with the unique occurrence and transfer mechanisms in society's division of labor. Circulating enterprises which shirk their macroeconomic functions—including those engaged in procurement in the foreign trade sector—should particularly be restricted by this system. Society's division of labor stems from and develops according to the principle of efficiency. Only enterprises that are clearly superior in terms of their cost of obtaining foreign exchange and their export profits should be allowed to participate in designated foreign trade operations and activities.

4. The principle of centralized management, which utilizes macroeconomic functions. To ensure harmony between the domestic and international markets, we must not only have economic parameters, such as unified tariffs, reimbursement of export duties, price compensation standards, and ratios for foreign exchange



retention for localities and enterprises, but we also need to create the systematic conditions that make centralized management acceptable. International trade theories and practices show that international commodity exchange neither adheres rigidly to a uniform international value nor simply quotes an individual country's national value. In international commodity exchange, the many domestic producers of a commodity objectively create a unified national value against the outside world. This value is created directly through the production process. How much profit a country can earn through the difference between its national value and the international value will depend on circulation organizations, the method of exchange, and the volume of foreign trade. We can use theories to systematically analyze the international exchange of commodities, but because commodity exchange has different characteristics in different sovereign states, it is very difficult to turn the results of these systematic analyses into realistic, advanced measures for macroeconomic regulation and control. This forces participants in international exchanges to consummate their foreign transactions skillfully at the macroeconomic level, in order to protect the status of their respective national values in the international market and to obtain as great a profit as possible from each trade transaction. Because primary products make up the bulk of China's export commodity mix, and because production of these primary products is scattered, it is even more important that we have the proper systematic conditions to give as a guarantee. That is why the we must set up a centralized foreign trade regulation and control system which makes use of its macroeconomic functions.

## II. The Characteristics of the New Foreign Trade Management System

The restructuring of the current foreign trade system follows the guiding ideology of satisfying as much as possible the country's need for foreign exchange to buy imports by tapping enterprise potential, setting higher standards for enterprises' foreign exchange revenues, and utilizing their foreign exchange-earning potential. By implementing the foreign trade contract system at every administrative level, the state's overall foreign exchange revenue goal is parceled out to the lower levels. As a result of the reform, we have to some extent mobilized local and enterprises' enthusiasm in earning more foreign exchange, however we have also upset the domestic market's equilibrium with the international market. It is our opinion that in order to provide the proper systematic conditions for guaranteeing harmony between the domestic and international markets, we should follow the established principles and design a new foreign trade management system which embodies the following characteristics:

1. The system should make foreign trade's macroeconomic functions more indirect and set enterprise goals at the enterprise level.

For a long time, guided by the foreign trade strategy of supplementing each other's needs and balancing each other's surpluses and deficits, and in order to guarantee the means to pay for the limited amount of imported goods and materials specified by the state, the traditional circulation of foreign trade commodities has depended entirely on mandatory planned management as its primary tool and has coordinated imports and exports with direct administrative measures. Although as a formality, we have retained such customary indirect international regulation and control measures as quotas and tariffs, in a system where mandatory foreign trade planned management has the absolute upper hand. These measures have either been twisted into ways to accommodate the mandatory foreign trade plans, or they exist nominally in the management of the circulation of foreign trade commodities and serve no practical purpose. They have completely lost their basic indirect regulation and control characteristics. This system keeps many goods and materials exchanged in the domestic market from the international market. It also takes advantage of the unique foreign trade financial system which makes the state responsible for all foreign trade profits and losses, and it artificially severs the close ties between the domestic and international prices of a handful of foreign trade commodities. Market opportunities for domestic enterprises are greatly limited as they make comparisons and choices in their output decisions. In addition, the circulation parameters of foreign trade commodities are distorted, erecting a barrier between the domestic and international markets.

In recent years, economic reform, especially the restructuring of the urban economic system, has prompted the reform of the foreign trade system. But in the reform process, the foreign trade development strategy has lagged behind the overall economic development strategy, which has come to emphasize efficiency instead of quantity; the purpose of foreign trade continues to be to provide enough foreign exchange to buy imports. Against the background of opening up to the outside world, importing more, and having less foreign exchange, certain reform measures have brought out this characteristic even more. For example, although reform has significantly reduced the scope of mandatory foreign trade planning with respect to the nature of material goods management, it has tightened the restrictions on the foreign trade contract system even more in terms of the quota of foreign exchange used and the amount of foreign exchange earned. Yet when evaluating the contracts, the reforms ignore the cost of obtaining foreign exchange, the amount of export profits or losses, and other efficiency indicators, and they implement a foreign exchange retention system that is clearly biased toward localities and enterprises. The reforms do this to make up for the various distortions in economic parameters created by the exchange rate, and to entice foreign trade enterprises to earn more foreign exchange. On the other hand, unlike other trades, which set their contract bases according to an enterprise's history of management success, from the start the foreign trade contract system has adopted an industry-wide reform measure which lets contracting units contract with the state and then parcel out the contract to other enterprises. Once this unique contract system becomes the primary or sole enterprise

organizational format in the reform, foreign trade enterprises' goals will be to simply divide up the overall goal of foreign trade—this will not be an independently meaningful goal that complies with the needs of the commodity economy. In addition, with the easing of the constraint of profit quota on contracting enterprises, ultimately, the foreign trade enterprises will at most be given a goal of maximizing their foreign exchange revenue that is similar to the state's macroeconomic objective, thus putting foreign enterprises' goal on the macroeconomic level. It is our opinion that the reform of the foreign trade contract system has caused foreign trade's macroeconomic function to undergo a transformation. Reform has changed it from a system of direct coordination into a system of indirect coordination by administrative measures, but reform has not given the foreign trade enterprises their independent enterprise goals. It is exactly in this sense that we say that the current foreign trade contract practices have not been able to escape the rigid pattern of the hypothetical product economy. It is these discrepancies in reform measures that have adversely affected the linking of the domestic and international markets at this stage of the development of the commodity economy. Setting enterprise goals at the macroeconomic level forces enterprises to simply try to earn more foreign revenues and more foreign exchange. It grossly overlooks enterprises' operating costs and their profit and loss responsibilities and makes it difficult to persuade enterprises to set efficiency goals. But foreign trade enterprises' profit and loss situation and a large part of their operating costs are derived from the price of their export goods in the domestic market. Foreign trade enterprises' goal of maximizing the amount of foreign exchange earnings often causes irrational changes in the domestic price structure of export commodities and makes it difficult to motivate enterprises to develop products which have market potential in international transactions. The fact is, because enterprises are exhausting their strength in increasing their foreign exchange earnings, in order to tap their potential for earning foreign exchange, the state has set different foreign exchange retention percentages for different localities and different enterprises. In addition, because the reversed price system at home has not yet been straightened out, consecutive foreign trade commodity wars have broken out among the localities as people try to snatch up more export goods. This has prevented the circulation of foreign trade commodities from properly readjusting the domestic product mix and from increasing the effective supply of commodities in the domestic market. As a result, the domestic market is still out of line with the international market, despite the new situation.

The foreign trade practices of the traditional system and during the reform process tell us that the establishment of a new foreign trade management system to ensure the organic integration of the domestic and international markets not only requires the use of stronger indirect management measures but also assurances that the foreign trade enterprises have their own independent goals,

which differ from the macro enterprise goals. Thus a foreign trade macroeconomic regulation and control system can be constructed in accordance with the new system.

The key to establishing a foreign trade macromanagement system with indirect regulation and control lies in smoothing out the relationship between foreign trade planning and the indirect regulation and control measures. Primarily, the foreign trade plan should be drawn up based on the state's import plan, foreign exchange revenue and expenditure plan, and the state's budget plan. The objective of the foreign trade plan should be to maximize foreign exchange income. This plan should be used as a guide when putting the indirect regulation and control measures into effect to break down the general foreign trade plan. The skillful use of indirect regulation and control measures can greatly increase the area of its impact, and the steady unification of the foreign trade plan and the indirect regulation and control measures is certain to harmonize the economic structure in a most profound way. In particular, if and when the management of quotas and permit issuance is taken out of the mandatory foreign trade plan which deals with the product mix, the object of the indirect regulation and control will become increasingly mobile, more time-effective, and macroeconomically selective. In addition, reform will help perfect the systems of tariffs and tax refund for exports and will enable us to include more commodity producers and managers in the international market and accelerate the merging of the domestic and international markets.

The indirect macroeconomic regulation and control of foreign trade can facilitate the linking of the domestic and international markets only through enterprises in the foreign trade commodity circulation sector. The internal merger of the domestic and international markets is manifested by enterprises' use of reasonable prices as a yardstick to make rational choices based on comparative advantage. But the indirect macroeconomic regulation and control of foreign trade may not be able to directly give enterprises their independent economic goal. Without such a goal, enterprises cannot be sure that the overall profits generated by foreign trade are consistent with their overall foreign exchange earning capabilities. Since economic efficiency is the direct result of enterprises' activities, in general, we can only create the conditions to encourage enterprises to make efficiency their goal. If calculations are done using a uniform exchange rate, then foreign trade profits are a direct reflection of the relationship between the price of export commodities and the price of those commodities at home. Here we should note that the commodity procurement price which affects foreign trade profits and the domestic price structure has nothing to do with the producers' price of commodities at home. The procurement price cannot, through the domestic production process, digest and absorb the elements that causes prices to change. This makes it imperative that we give the foreign trade enterprises independent economic

goals, tighten the profit quota constraint, curb the increase in the cost of obtaining foreign exchange, and prevent the eruption of procurement wars, so as to ensure that we have a good environment in terms of foreign trade prices to facilitate the price reform at home. The increase in enterprises' foreign trade profits will facilitate the completion of the state's general foreign exchange earning plan. What is puzzling is that in recent years, rather than being triggered by the foreign trade contract system, the increase in exports has mainly been triggered by the series of measures the state adopted to entice enterprises to complete their contract base. These measures include handing down foreign trade management power to lower levels, increasing the foreign exchange retention percentage, and allowing enterprises to use foreign exchange based on a regulation price which approximates the foreign exchange equilibrium price.

2. The system should merge the domestic commodity and foreign trade commodity circulation mechanisms:

The macroeconomic regulation and control of the foreign trade system always requires a special commodity management system that is compatible with the system of allocation of goods and materials. The circulation of foreign trade commodities is an extension of the circulation of commodities in the domestic market. The linking of the domestic and international markets and the setting up of the foreign trade macro regulation and control system both require the mechanical incorporation of the domestic commodity circulation organizations and the foreign trade commodity circulation organizations. Under the traditional economic system, the foreign trade macroeconomic regulation and control system, which tries to guard against the international market, is put into effect through the mandatory foreign trade plan. The basic characteristics of mandatory planned management require that an independent foreign trade procurement system, which differs from the domestic commodity circulation organizations, be set up in the foreign trade commodity circulation system. This procurement system is put to work through the procurement, transfer, and allocation relationships among grassroots foreign trade procurement enterprises and foreign trade export enterprises, as well as other links which form a closed, monopolistic management system. Except for the staple resource-type commodities and a handful of machinery and electronics products, the circulation of foreign trade commodities involves only the export commodity production bases and some products procured by grassroots foreign trade enterprises. Although this system can filter out some of the effects of the international market's instability on the domestic market, it still puts up a barrier between industry and commerce and creates an artificial fault between the circulation of domestic and foreign trade commodities. The restructuring of the urban economic system has adopted several foreign trade reform measures, but in essence, it still affirms the basic framework of the state monopoly of foreign trade management, and domestic

businesses are completely excluded from the circulation of foreign trade commodities. This has greatly reduced the depth of foreign trade in the development of the commodity economy, and it has created a situation where people fight over managing profitable commodities and abandon those that generate little or no profit. This has seriously undermined the organizational arrangement of the domestic and international markets.

As the macroeconomic regulation and control system proceeds to set enterprise goals, we should try to merge the domestic and foreign trade commodity circulation mechanisms. The implementation of this reform measure in essence allows the organic integration of the internal and external commodities sales activities and the import and export of relating commodities within the same enterprise. As a result, foreign trade economic efficiency and the economic efficiency of the domestic circulation of commodities will be unified within the same operation to utilize enterprises' inherent ability to avert the risks associated with different products at different times and in turn find an enterprise format which can link up the domestic and international markets. Due to the unique character of China's import and export mix and of its current price structure, it is mainly labor-intensive, primary products that generate China's export and foreign exchange revenues. This particular industrial sector has not yet organized its production according to the production method of a modern commodity economy, and therefore production is still done in small batches. If these products are shipped directly at less than minimal batch-size, it will dissipate China's market share in the export markets, lower the economies of scale, and diminish China's international competitiveness. Moreover, importing countries often subject these commodities to strict quotas, forcing domestic producers to engage in cutthroat competition with one another. Therefore the foreign circulation of these commodities should make full use of the functions of the procurement link and not rely entirely on the method of direct supply by the producers to the foreign exporters which act as agents, so that we can build an export volume that is compatible with international market competition. Everybody knows that domestic businesses have mature sales channels that can facilitate the above-described product circulation and sales, and they have the functional ability to handle foreign trade procurements, and the state can also put this type of enterprise under its centralized administration along with other domestic wholesale businesses.

There is no denying that we still have the question of the proper division of labor among the foreign trade commodity circulation organizations. When we comply with the principle of trying to link the domestic and international markets, construct a new foreign trade system, and delineate the scope of circulation of domestic and foreign trade commodities, we must deal with the following relationships: (a) The planned foreign trade tasks, especially the mandatory foreign trade plans which have been retained after the readjustment, should be handled by

existing specialized foreign trade companies; the purchase, sales, transfer, and stockpiling of mandatory commodities that affect the domestic market arrangement should be handled by the domestic businesses. (b) Foreign trade management rights should be given to a handful of large, domestic wholesale commercial enterprises; the rest of the many wholesale commercial enterprises should primarily take on the foreign trade procurement and sales functions, and foreign export companies should act as agents in handling all import-export businesses. Decisions regarding issuing export buyer's credit or seller's credit in exporting should be based on foreign trade businesses' past business experiences. (c) We should manage the quota and import-export permits skillfully, and by making the circulation of domestic and foreign trade commodities more competitive and the market organizations more efficient, we can give expression to the transfer mechanisms in society's division of labor and guarantee the state's centralized management of the circulation of foreign trade commodities.

### 3. The system should have the ability to make micro-adjustments of the foreign trade policy environment:

A reasonable economic system should be able to coordinate the policy implementation, bring us closer to our policy goals, and ensure the linking of the domestic and international markets. The new foreign trade system should at least have the following microeconomic adjustment abilities:

One, using different management formats, the system should be able to prevent the exchange policy from tearing the domestic market away from the international market. One of the basic forms of internal integration of the domestic and international markets is to link up the domestic and international market prices. This means the domestic price structure must be compatible with the international market price structure, and we must have a proper exchange rate policy. China is a developing nation that has scarce foreign exchange. The government simply cannot abandon centralized control of foreign exchange and the exchange rate any time soon. The over-valued exchange rate can be corrected only gradually, through reform and development. Under the circumstances, the correct thing to do will be to provide the reasonable systematic conditions to control and ease the phenomenon where the domestic price of import-export products is way out of line with the price of those products in the international market as a result of the over-valued exchange rate. One way to link the two price systems is to make sure that the producers of the different products relay to the international market prices that are more or less reasonable and maintain the same price ratio. Meanwhile, we should use the same price ratio to determine the price of imported goods for the consumers or users. In accordance with the traditional foreign trade system's centrally managed foreign trade pricing principle, the foreign trade procurement price of most products is based on the domestic price. In turn, the effect of the domestic price system on export

prices is blocked by extending foreign trade subsidies, requiring enterprises to hand over their foreign trade profits, and by balancing the profit and loss of different products within the foreign trade enterprises. Meanwhile, the import transfer and allocation price of imported goods is also based on domestic prices. This method clearly severs the relationship between domestic and international prices. The foreign trade agent system can prevent the severing of the link between domestic and international prices caused by the state's taking direct responsibility for all foreign trade profits and losses. It does so by reducing the impact of circulation on the link between these two price systems to a fixed percentage, namely, the agent's commission, and this will facilitate the linking up of the two price systems. Thus, in the new foreign trade system, besides putting some important and sensitive state-mandated import and export commodities under the centralized management of the large foreign trade enterprises, we should make use of other means to develop different kinds of foreign trade agency systems. Given that the exchange rate is relatively stable, the linking of the domestic and international prices will necessarily affect the domestic price structure as a result of the differences in the amount of profit generated by trade. This in turn will further make the domestic and international price structures more compatible with each other.

Two, by setting up an efficiency-oriented enterprise organizational format, the system should be able to ease the conflict between the state's relatively centralized foreign exchange utilization policy and the lack of efficiency in earning foreign exchange. In today's open economic system, to increase a developing nation's structural efficiency, we need to have the right conditions in order to guarantee that our foreign exchange earning goal can be reached. The goal of obtaining foreign exchange at any cost—without regard for efficiency—will only create a financial burden for the state. The new foreign trade management system should take us out of the vicious circle of disproportionate foreign exchange delivery by enterprises and high cost of obtaining foreign exchange, and it should strive to increase enterprises' foreign trade efficiency. So long as enterprises are earning ample foreign exchange and the state is properly handling and coordinating the financial, foreign exchange, and foreign exchange management policies, the state will have no trouble getting more foreign exchange. This has been proven by the plunging foreign exchange regulation price and the reversed supply-demand conditions since the recent tightening process. This will guarantee more long-term foreign trade profits. A enterprise organizational format oriented toward high efficiency can reap immediate trade profit by making full use of the existing product mix and ease the domestic market's structural conflicts.

Third, by skillfully using the quota system, the permit system, tariffs, and other price and quantity control measures to readjust the process of implementing our foreign trade plans, the new system should guarantee the



link between the domestic and international markets with respect to the source of goods. Exports of staple, resource-type commodities should strictly follow the foreign trade plan. Foreign trade involving other products should be readjusted skillfully by regulating the systematic conditions. With regard to certain export commodities that are high-quality, low-price, labor-intensive, and improperly priced, we should use price and quantity regulation measures, or even consider a use-compensated quota system, and other quantitative adjustment measures. By making sure that we will not become less competitive, we should restore part of the foreign trade profit to the production sector, so as to stabilize and develop our export production capability. With respect to imports, particularly imports run by enterprises themselves, we need to analyze and set an import quota for each product category. We should set a limit which effectively relays the world market's production cost and value, and at the same time protects China's national industries.

### **Sino-Soviet Economic, Technological Cooperation**

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[Article by Zhang Hengxuan (1728 1854 6513), Li Zupei (2621 4371 1014), and Li Zhe (2621 0772); Responsible editor: Fan Xinyu (5400 2450 1342): "The Importance and Possibility of Economic and Technological Cooperation Along the Sino-Soviet Border"]

[Text] There is a historical tradition of border trade between China and the Soviet Union, with bilateral trade contacts in the border region going back as far as the mid-17th century. After the founding of the PRC in 1949, China and the Soviet Union signed their first intergovernmental trade and payments agreements in 1950, which officially established Sino-Soviet trade relations. Then they concluded and signed trade and navigation treaties, which laid and consolidated the legal basis for Sino-Soviet trade relations. Later, after Sino-Soviet economic, trade, and S&T cooperation relations had developed greatly in the 1950's, Sino-Soviet foreign economic and relations and trade declined sharply in the 1960's and gradually recovered again in the 1970's. Sino-Soviet foreign economic relations and trade expanded quickly again in the 1980's, and the Soviet Union is now China's fifth largest trading partner, ranking behind only the Hong Kong-Macao region, Japan, the United States, and Germany. Sino-Soviet border trade has expanded even more quickly in recent years, steadily increasing in scope, gradually expanding to more administrative levels, doubling and redoubling in turnover year after year, steadily expanding in variety of commodities, and gradually diversifying in form.

When Sino-Soviet border trade resumed in 1982, China's only participants were Heilongjiang Province and the Inner Mongolian Autonomous Region, with the Xinjiang Uygur Autonomous Region and Jilin Province joining these ranks in 1986 and 1987, respectively. As far

as administrative levels are concerned, China had only one provincial level (autonomous regional) at the time, which have now increased to the following four: provincial (autonomous regional) and plan-list cities, and border region prefectural capitals, counties, and key cities and towns. Soviet participation in border trade by border districts, autonomous prefectures, and autonomous republics, as well as Soviet republics, has also gradually expanded. China and the Soviet Union have now developed large-scale economic, technological, and trade cooperation in their border regions.

Sino-Soviet border trade turnover was 21.85 million Swiss francs in 1983, had increased to 71.01 million Swiss francs by 1985, for an increase of 220 percent, and sharply increased again to 405.01 million Swiss francs by 1988, or 17.5 times that of 1983.

While the earliest Sino-Soviet border trade was a simple exchange of commodities in a single form, it has now developed to diversified forms of cooperation, such as foreign construction contracting, labor exports, joint ventures, S&T cooperation, foreign contract construction, cooperative factory construction, and manufacturing of imported materials and samples. Encouraging progress has also been made in tourism in the border region.

Taking Heilongjiang Province in 1989 as an example, barter trade had reached 597 million Swiss francs, or three times that of 1988, 141 economic and technological cooperation contracts were signed, or 8.8 times as many as in 1988, these contracts amounted to 227 million Swiss francs, or 7.3 times as much as in 1988, and over 11,000 Chinese workers from Heilongjiang, or nine times as many as in 1988, were working in the Soviet Union. In particular, the "Talks on Chinese Foreign Economic Relations and Trade with the Soviet Union and Eastern European Countries," which were held in Harbin in June 1990, were a powerful motivation to Sino-Soviet foreign economic relations and trade cooperation, a full confirmation of Sino-Soviet border trade, welcomed by both the Chinese and Soviet peoples, and a focus of world attention.

Foreign economic relations and trade expansion along the Sino-Soviet border has played the following positive roles in Chinese and Soviet economic and social developments:

1. It has changed the strategic importance of the Sino-Soviet border region in opening up to the outside world. Regional economic and technological cooperation developments between China and the Soviet Union have turned the Chinese provinces on the Soviet border into a forward zone for China's opening up to the Soviet Union, while the Soviet Union's border region has also become a forward zone for the Soviet Union's opening up to China, northeast Asia, and all of southeast Asia. All of this general area, which is opening up in all directions, has taken on a strategic importance that it had not been able to fully display in the past. This will have a



far-reaching impact not only on the socioeconomic development of the two border regions, but also on the economic development of both China and the Soviet Union.

2. It has benefited both China and the Soviet Union, enabling both to achieve better economic efficiency and social results. As far as the Soviet Union is concerned, the various commodities that China has exported there in recent years have basically won Soviet trust and appreciation, and helped to ease Soviet commodity shortages, particularly in its far eastern and Siberian regions. As to China, the goods that we have imported from the Soviet Union have similarly helped to alleviate certain raw material shortages, supplement urgent industrial and agricultural production needs, and invigorate urban and rural markets.

3. It has speeded up the economic invigoration of the border zones. Various factors, such as historical and social, have kept both the Chinese and Soviet border zones from being developed very well. For instance, the 18 border cities and counties on Heilongjiang Province's over 3,000 km border with the Soviet Union had long been closed off, impoverished, and in need of annual state financial subsidies. But since China began to reform and open up to the outside world, and since we developed border trade with the Soviet Union in particular, these conditions have changed and Heilongjiang's border economy has begun to take off. For example, the development of border trade by Suifenhe City has begun to reverse its past backwardness and, since 1988, has left it not only no longer in need of state financial subsidies, but has also turned it into a city that pays revenue into central coffers. It paid over 10 million yuan in taxes and profits in 1989, and its border trade and economic development have also improved its urban infrastructure and raised its peoples living standards. As far as the Soviet Union is concerned, Sino-Soviet border trade has also played a very clear role in speeding up economic development and improving living standards in the border region, which has won their full approval and high acclaim.

Economic and technological cooperation along the Sino-Soviet border has also opened the door for labor exports among China's abundant labor force. While Chinese labor exports to the Soviet Union may still be very small in number, they are obviously able to alleviate the social pressure caused by the decreased scale of capital construction and our diminishing forestry resources. Moreover, as the Soviet Union is bound to greatly increase its development of the rich natural resources in Siberia and its far eastern region, Chinese labor exports will greatly alleviate the Soviet Union's severe problems of labor and technician shortages.

4. It has promoted the development of externally oriented economies and higher-tech industrial structures in both China and the Soviet Union. The process of expanding economic cooperation was bound to force manufacturers in both China and the Soviet Union to

meet trade development needs by reforming their plans, improving their product quality, striving to produce more marketable products, and taking active steps to develop and build export manufacturing zones and production bases. It has also forced them to build and upgrade certain factories and enterprises and constantly improve their economic efficiency, in order to improve their product quality and raise their level of technology.

The expansion of Sino-Soviet border trade and economic and technological cooperation has also promoted interregional economic and technological cooperation within both countries. For instance, inland China, and the various southeastern coastal provinces in particular, have strengthened their contacts and cooperation with northern border provinces, and joined the ranks of those helping the north to open up to the outside world. The European region of the Soviet Union has similarly strengthened its contacts and cooperation with its far eastern autonomous provinces and border regions, and joined the ranks of those helping the southern Soviet Union, China, and the Asian-Pacific region to open up to the outside world. Practice has proven that expanding border trade and strengthening economic and technological cooperation in border regions not only promotes understanding, intercourse, and friendship between border area inhabitants of neighboring countries; strengthens links between border regions and the interior; speeds up border region production, enriches the lives of border area inhabitants, and plays a key role in invigorating border economies; but can also promote a more thorough opening up to the outside world by both sides, draw support from international competition pressure, and force domestic producers to give more attention to economic accountability, thereby enhancing production capabilities and improving labor productivity.

In the rapid expansion of foreign economic relations and trade between China and the Soviet Union, we can see the following extremely favorable conditions for the further expansion of economic, technological, and trade cooperation along the Sino-Soviet border:

1. Sino-Soviet relations have entered a new period of steady progress. The high level meeting between Chinese and Soviet leaders in May 1989 normalized Sino-Soviet relations, whereupon relations between the CPC and the CPSU also returned to normal. The newly established Sino-Soviet relationship will be of key significance to future good-neighborliness, friendship, and cooperation between China and the Soviet Union and their border regions. China and the Soviet Union have both entered new periods focused on economic development, which has laid a solid foundation for the future development of Sino-Soviet economic relations. Moreover, the six agreements signed by the governments of China and the Soviet Union in 1989, such as the "Program for Developing Long-Range Economic, Scientific, and Technological Cooperation," have provided broad prospects for Sino-Soviet cooperation.

2. China and the Soviet Union are both in the midst of thorough reform processes, and their foreign economic relations are both developing in the direction of more opening up to the outside world. China is reforming and opening up to the outside world at the same time. We have already gradually moved the focus of our foreign economic activities from our former traditional system, which was highly monopolistic and centrally managed, divorced production from marketing, made no distinction between government administration and enterprise management, and overly centralized, to the basic idea of "devolving authority to lower administrative levels and conceding profits to localities," and are now deepening reforms in this area. In order to expand our trade with the Soviet Union, all provinces, autonomous regions, and plan-list cities throughout China have had the authority since 1988 to engage in trade with the Soviet Union, and many border ports have been established to speed up border trade growth.

The Soviet Union has also taken a series of steps, such as giving all departments and enterprises the authority to enter foreign markets directly, in order to develop its foreign economic relations. The Soviet Government also stipulated on 1 April 1989 that all enterprises, joint ventures, production cooperatives, and other units, whose products (projects and services) are competitive on foreign markets, have the authority to engage in foreign trade. The Soviet Union has also given all republics and regions the authority to engage in foreign trade, and has authorized them to develop local and border trade. Moreover, it has also taken steps to stimulate market forces, in order to widely enhance the inherent potential of its enterprises to break into international markets.

In summary, China and the Soviet Union have both noted and emphasized their need to change from a single form of barter trade to economic and technological cooperation with cash payment. Both countries are now in the process of trying to become more open by reforming their foreign economic relations and trade systems. This will undoubtedly be a powerful motivation for promoting economic and technological cooperation between the two countries and their border regions.

3. As the Soviet Union's foreign economic cooperation is focused on the Western countries and the Asian-Pacific region, it has decided to speed up development and opening up of its eastern region, which presents even greater possibilities for expanding Sino-Soviet economic cooperation. Although the Soviet Union has rich natural resources, they are distributed unevenly. While the western part of the Soviet Union has become a powerful industrial base and developed into a complete national economic system, its eastern region, where much of its natural resources are located, is still relatively undeveloped. In order to basically change its irrational productive forces structure, the government of the Soviet Union has decided to speed up development of its eastern region. The Soviet Union's announced development program provides for industry in its far eastern region to

increase by 140 percent to 150 percent by the end of the century, which is higher than the planned objective of a 100 percent increase for the Soviet Union as a whole. The Soviet Union will have invested 198 billion rubles in its far eastern region from 1985 to the end of the century, in order to fully develop this region's economic potential. Moreover, the Soviet Union will also build specialized export bases in its far eastern region, enabling it to more fully participate in international cooperation, in order to adapt to the shift in the late 20th and early 21st century of the world's economic relations and trade center toward the Asian-Pacific region, and toward southeast and northeast Asia in particular.

The Soviet Union's faster development and opening up of its far eastern region will present a good opportunity for expansion of Sino-Soviet economic relations and enhancement of regional economic cooperation. An analysis of data from the Soviet Union and relevant publications shows that the mining industry and other industrial sectors in the Soviet Union's far eastern region are now experiencing a higher than 30 percent labor shortage, its farming and livestock industry sectors are experiencing a higher than 40 percent labor shortage, and its future development needs are going to exacerbate these labor shortages. For instance, while the Soviet Union needs to increase its housing area in its far eastern region by 77 million sq m and in Siberia by 88 million sq m by the end of the century, it has only 60 percent of this construction capability, and the rest must be supplied from abroad. Considering the many workers and technicians that the Soviet Union will need for forestry and resource development in its far eastern region, and for expanding light industry, the food industry, farming, and the livestock industry in its undeveloped eastern region, there are going to be bright prospects for expanding labor cooperation with the Soviet Union.

Of course, there is also going to be sharp competition. The Soviet Union has repeatedly expressed a desire for more cooperation with Japan, and is trying to attract Japanese investment and technology for joint development of its far eastern region. Japan has also expressed an enthusiasm for cooperation. If Soviet President Gorbachev can arrange to iron out bilateral differences and conclude a peace treaty with Japan during his scheduled visit there this spring, Japanese-Soviet economic cooperation in the Far East is likely to progress quickly. The Soviet Union and South Korea have already announced their establishment of diplomatic relations and mutual establishment of embassies. As the Soviet Union has also called on South Korean industrial circles to participate in various Siberian development projects, future Soviet-South Korean economic relations will also expand correspondingly.

Thus, we should consider economic and technological cooperation along the Sino-Soviet border in the context of economic cooperation in the whole northeast Asian economic zone. China has not only a good basis for

economic cooperation with the Soviet Union, but also a great potential for cooperation with Japan and South Korea.

4. China and the Soviet Union are going to continue to be able to supplement each others' import and export commodity mixes and increasingly expand their economic cooperation for a long time to come.

At present, about 70 percent of the bilateral supplementation between China and the Soviet Union is in raw materials and primary products, while 30 percent is in manufactured goods. While the percentage of manufactured goods will increase steadily, which will gradually weaken this supplementation, it is unlikely that a basic change will occur within the century, because industrial and economic structural adjustments, technological upgrading, and supply capacity increases all take time. While the Soviet Union's adjustment of its export mix, i.e., adjustment of its commodity export mix from raw materials to mostly manufactured goods, and its implementation of an export licensing system to restrict raw materials exports, will naturally have some effect, it will be unlikely to have a decisive impact, because of overall national economic structural limitations and restrictions. It is only likely to partially change our foreign trade structures and motivate both China and the Soviet Union to strive to develop new foreign trade commodities. Moreover, it will also strongly motivate both countries to stop limiting their economic relations to an exchange of commodities and develop in new directions. For instance, setting up Sino-Soviet joint ventures will enable both sides to constantly develop and expand all fields of cooperation, from production, trade, and material objects to circulation, investment, and labor. The Soviet Union has successfully borrowed money from the West in recent years to set up cooperative and joint ventures, of which it had 159 in 1988 and 1,274 by 1989. At the same time, the Soviet Union has also set up overseas joint and cooperative ventures and, by early 1988, had signed contracts for over 1,500 cooperative ventures in developing countries. China's many Sino-foreign joint and cooperative ventures, and the experience that we acquired by starting to open up to the outside world first, have provided favorable conditions and good development prospects for setting up Sino-Soviet joint and cooperative ventures.

There are also certain factors that are unfavorable to the development of Sino-Soviet economic and technological cooperation. The limitations of our two countries' economic development levels and economic systems and structures, make it generally hard for our economic interrelations to meet each other's needs for accelerated development. The reality we must confront is that both China and the Soviet Union are now giving priority to economic relations and trade with the West, and are becoming more dependant on the West in the areas of economic relations, S&T, and money, which is lowering Sino-Soviet interdependence and gradually weakening our foreign economic relations and trade supplementation. To be objective about it, as Sino-Soviet bilateral

foreign economic relations and trade cooperation under our former systems was generally small in scope, amount, and quality, it was bound to increase and expand along with adjustments of our industrial and economic structures. China and the Soviet Union should adopt a policy of developing trade and economic and technological cooperation simultaneously, by using trade as the forerunner and cooperation in the field of production technology as the basis, in order to enhance and expand new forms of cooperative relations between our two countries and our border regions flexibly and in diversified ways, establish bilateral cooperation mechanisms that conform to the laws of international foreign economic relations and trade development, and enable bilateral economic and technological cooperation to reach new heights in structure, quality, size, and scope.

1. Based on the "Sino-Soviet Program for Developing Long-Range Economic, Scientific, and Technological Cooperation," China and the Soviet Union should both draw up feasible export plans and coordinate them with each other's import plans. As far as China is concerned, we should give planning consideration to both our past history and traditions, as well as the Soviet Union's changing market demand, focus our efforts on producing products that are more competitive and have more potential advantages, strengthen our control over price and nonprice competition, enhance and improve our export work, and expand and develop our markets. In order to strive to improve our export product quality, our enterprises must make a basic change in and improvement of their export production concepts, by raising the quality of their merchandise, increasing their variety of colors and designs, producing newer and more original models and designs, improving their packaging and decoration, and steadily increasing the added value of their export commodities. Moreover, we should gradually create the conditions to change our key exports from primary products to manufactured goods, and from rough to finely finished products.

2. As to trade forms, we should use mostly cash payment, along with barter and other flexible and diversified forms of trade, in order to contribute to the expansion of bilateral trade contacts and economic and technological cooperation. Changing over to cash trade will be an advance. As both China and the Soviet Union are always short on foreign exchange, it would be unrealistic for either side to count on acquiring more hard currency from the other side through trade. On one hand, along with moving to cash trade, we should also actively strive for a rough balance of imports and exports, which will be favorable to the long-range development of bilateral trade relations. On the other, we should flexibly combine the principle of compensated trade with various other forms of trade, such as return or mutual purchases, mixed compensation, and combining some or many products with some cash payment, in order to contribute to the enhancement and expansion of bilateral trade and cooperation.

3. We must take active steps to develop all forms of economic and technological cooperation. Based on bilateral reform cooperation mechanisms, we envision taking active steps to urge and support large- and medium-sized enterprises on both sides to establish diversified forms of direct links with each other, and using production and S&T cooperation to spur trade expansion and promote overall coordination. Moreover, bilateral coordination should be given appropriately eased conditions or specific preferences, and certain powerful specialized companies and departments should be urged and allowed to make direct investments or buy shares in businesses on the other side, in order to put bilateral foreign economic relations and trade developments on a sounder basis of cooperation. We think that all forms of economic and technological cooperation that China and the Soviet Union use with Western countries could be transplanted to Sino-Soviet cooperation, and that new forms of cooperation suited to Sino-Soviet realities should be explored thoroughly.

4. We should thoroughly expand labor cooperation and international contracting. Sino-Soviet cooperation in this area is now limited to the fields of construction, forestry, agriculture, and industry on a small scale, the major reason being the existence of structural obstacles. Future reforms should enable bilateral labor cooperation to develop to the level of labor makeup cooperation, appropriately and rationally solve relevant problems in areas such as payments, efficiency, project time limits, and management, and enable the field of labor cooperation to expand steadily in scope and depth.

5. We should adjust our economic structures, and set up foreign export commodity production bases. This means adjusting mostly our industrial structures, product mixes, technology structures, and enterprise organization structures. We should take active steps to expand and enhance new and developing industries, raise technology levels, and develop finished products. As the world trade development trend is toward steady increases in the percentage of high-tech and finished products, and steady decreases in the percentage of raw materials and rough products, we must speed up adjustment of our enterprise structures, particularly for large enterprises.

6. China and the Soviet Union should play active roles in each others' SEZ establishment. As China's SEZ's have been operating for almost a decade, we have accumulated development experience, and should take the lead in participating in the Soviet Union's recently announced establishment of free economic zones. This participation will enable us to compete with Western and Asian-Pacific countries, in order to speed up the pace of Sino-Soviet advances.

7. We should take active steps to develop bilateral contact channels. Once the Soviet Union changes over to cash trade, all of its companies and enterprises will be able to participate in China's twice-a-year Guangzhou trade fair and annual Harbin trade talks, which can

become contact channels for acquiring customers. As the Guangzhou trade fair deals mostly with various specialized corporations, the Harbin trade talks should deal mostly with border trade companies. China's companies and enterprises should also take part in Soviet exhibitions and trade fairs, in order to enhance interrelationships and mutual understanding.

8. We should take active and safe steps to develop tourism along the Sino-Soviet border, and the foreign affairs and tourist sectors in both countries should provide certain conveniences for short-term (one to five days) tourists. This will contribute to the development of friendly intercourse among people along the Sino-Soviet border.

### **Shandong Holds Foreign Trade Work Conference**

*SK0204074891 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 1 Apr 91*

[Text] The provincial government held a provincial foreign trade work conference in Qingdao from 31 March to 1 April. The conference was to discuss issues concerning the reform of foreign trade structure and the implementation of the contract responsibility system and measures for accomplishing this year's export plan and the program for readjusting the export commodity structure. Vice Governors Ma Shizhong and Guo Changcai attended and addressed the conference.

The conference pointed out: Beginning this year, the state will further reform and improve the foreign trade system, abolish the state financial subsidies for foreign export trade, proceed in the work by establishing a mechanism of assuming responsibility for one's own profits and losses, and enable foreign trade to gradually enter the orbit of adoption of unified policies, competition on an equal basis, independent operation, sole responsibility for one's own profits and losses, coordination between industry and foreign trade, promotion of an agent system and taking coordinated actions in respect of foreign countries. This is a crucial stride for reforming the structure of foreign trade and is an important turning point for the reform of the foreign trade structure.

The conference stressed: To deepen our province's reform of the foreign trade structure, we should strengthen the contract mechanism of assuming sole responsibility for one's profits and losses, actively improve the operation and management of foreign trade enterprises, be determined to readjust the structure of export commodities, cut the export of commodities that incur great deficits, firmly grasp the quality of export commodities, enhance our foreign exchange earning capacity, promote coordination between industry and foreign trade, actively develop export-oriented enterprise groups, and expand the export volume of enterprises operating on their own. All levels, all trades and professions across the province should care for and support foreign trade, participate in reform of the foreign trade structure, and promote the development of foreign trade undertakings.

The conference called on cadres and workers of the foreign trade departments to foster firm confidence and determination, and guarantee the fulfillment of the annual task of creating foreign exchange through export. Foreign trade enterprises should fully use the good opportunity of foreign trade structural reform to establish a foreign trade operational mechanism of assuming full responsibility for one's profits and losses as soon as possible, tap internal potentials in a down-to-earth manner, and achieve good efficiency and high speed through strengthening management.

### **Trends Among Beijing's New Foreign-Funded Enterprises**

*OW0404190691 Beijing XINHUA in English  
1636 GMT 4 Apr 91*

[Text] Beijing, April 4 (XINHUA)—Beijing, China's capital, boasts 1,000 foreign-funded enterprises involving a total investment of 4.925 billion U.S. dollars. According to the Beijing Municipal Economic and Trade Commission, the improved investment circumstances are attracting an increasing number of investors from the United States, Japan, Germany, France, Singapore, Thailand and South Korea as well as Taiwan and Hong Kong regions.

In the first three months of this year the Beijing Municipal Government approved 162 foreign-funded enterprises involving a total investment of 160 million U.S. dollars. Foreign direct investment totalled 77.88 million U.S. dollars. These figures represent increases of 194 percent, 207 percent and 304 percent, respectively, over the same period last year.

It is learned that the foreign-funded enterprises approved in the last three months show the following features:

- More of them are small and medium-sized enterprises.
- More are production enterprises.
- More are being set up in counties and townships on the outskirts of Beijing.

Liang Yuewen, an official from the Beijing Municipal Economic and Trade Commission, said that local laws and regulations enacted since last year have done more to protect foreign investors' rights.

The districts and counties around Beijing all possess enough funds and trained personnel to set up small and medium-sized enterprises, Liang pointed out.

Wu Yi, deputy mayor of Beijing, said that the capital will open its doors wider and welcome friends from all over the world to set up enterprises here, especially those who wish to invest in the electronics, automobile, textile, food processing, building materials and light industries as well as in agriculture.

### **Foreign Trade Increases in 1st Quarter**

*OW0804210991 Beijing XINHUA in English  
1548 GMT 8 Apr 91*

[Text] Beijing, April 8 (XINHUA)—Chinese customs announced today in Beijing that the country's foreign trade figures reached 24.53 billion U.S. dollars in the first quarter of this year, an increase of 18.1 percent over the same period of last year.

A customs official said that China's exports grew by 24.1 percent to 13.39 billion U.S. dollars, while imports rose by 11.7 percent to 11.14 billion U.S. dollars.

The official noted that during March the country recorded a dramatic 27.4 percent growth in imports—13.4 percent higher than exports in the same month.

After deducting factors such as grants, donations, processing with supplied materials, and equipment imported as investment by foreign-funded enterprises, China's exports were 2.84 billion U.S. dollars more than imports during the quarter.

## **ECONOMIC ZONES**

### **Fujian's Xiamen City Accommodates More Taiwan Investors**

*OW0804032191 Beijing XINHUA in English  
0259 GMT 8 Apr 91*

[Text] Xiamen, April 8 (XINHUA)—The number of Taiwan-funded enterprises in Xiamen City, in east China's Fujian Province, increased to 410 last year from 20 in 1989, according to a local official.

Statistics show that the total investment value reached one billion U.S. dollars last year, accounting for 50 percent of the total investment from Taiwan in the mainland.

In order to attract more outside investors the city authorities have devoted major efforts to the improvement of investment conditions and basic facilities since 1981, including some special measures for investors from Taiwan.

### **Banks Take Lead To Develop Shanghai's Pudong Area**

*OW0804210191 Beijing XINHUA in English  
1513 GMT 8 Apr 91*

[Text] Shanghai, April 8 (XINHUA)—The banking industry has taken the lead in efforts to develop Shanghai's Pudong area—a move seen by some experts as unique compared with other development zones in China.

The experts were attending a symposium held here to discuss the relationship between the development of banking and the development of Pudong.



Information released at the meeting shows that within the past year several Chinese banks and financial companies have opened branches in Pudong. In addition, six foreign banks which have applied to locate branches in Shanghai have expressed their intention to provide funds for the area.

Participants in the symposium expressed their belief that along with the development of Pudong more international banking business will be transacted in Pudong. As a result, they pointed out that there is an urgent need to train more specialists in this field.

### Shenzhen Reports First Quarter Economic Growth

OW0804210391 Beijing XINHUA in English  
1602 GMT 8 Apr 91

[Text] Shenzhen, April 8 (XINHUA)—Statistics released today by the statistical bureau of Shenzhen City in south China's Guangdong Province show that the city recorded substantial economic growth in the first quarter this year.

The city generated an industrial output value of over 4.58 billion yuan during the quarter, a 37.7 percent increase over last year's same quarter.

Shenzhen produced export goods valued at over 2.87 billion yuan worth, up 38.1 percent over last year's period.

The city's export volume increased by 29.3 percent to 941 million U.S. dollars, while its import volume was 719 million U.S. dollars, up 40.2 percent.

In addition, the city's revenue during the period jumped 42.7 percent to over 574 million yuan.

### Shenzhen Foreign Investment Sources Revealed

HK1004122491 Beijing CEI Database in English  
10 Apr 91

[Text] Shenzhen (CEI)—Following is a table of sources of foreign investment in the Shenzhen Special Economic Zone from 1979 to 1990, according to the city government.

Countries/Regions	(Unit: Million U.S. Dollars)		
	Number of Projects	Contracted Value	Actual Investment
Total	7,686	6,183.93	3,952.71
Hong Kong	7,170	4,553.91	2,129.71
Japan	154	440.06	685.89
U.S.	118	216.19	140.29
Singapore	45	242.80	39.24
Taiwan	78	72.32	17.03
France	21	54.43	64.37
Britain	18	113.57	22.11
Thailand	14	41.30	2.86

Australia	12	56.92	47.73
Germany	7	29.56	14.48
Canada	8	22.49	14.19
Philippines	7	2.90	1.97
Holland	5	6.32	3.66
Switzerland	7	39.34	6.47
Denmark	2	1.50	1.50
Italy	2	2.76	
Macao	1	3.00	
Austria	1	0.75	0.75
United Arab Emirates	2	0.27	
Malaysia	1	0.64	
Bolivia	1	0.64	
Indonesia	1	0.18	
Others	11	282.55	57.46

## LABOR

### Labor Export To Be Promoted

HK2704064391 Beijing CHINA DAILY in English  
27 Apr 91 p 4

[By Li Hong]

[Text] China's guiding blueprint, the Eighth Five-Year Plan and the Ten-Year Programme for National Economic and Social Development, has made it clear that it will promote contracts to work abroad in the coming decade.

The predicted take-off in the country's manpower export requires a great deal of work to relieve fears of a talent drain, to pursue favourable policies and to train both workers and managers.

China has just taken the first step to promote overseas business contracts. Its annual labour export at present amounts to a mere 70,000 workers, only 0.3 percent of the world total.

Every year labourers from the developing states send home as much as \$30 billion through their work abroad, according to Mao Jian, a research fellow with China's Labour Ministry.

However, China's annual overseas contract earnings is below \$2 billion.

To invigorate its labour export, the country needs to abandon the outdated attitude of looking down upon manpower trade, and to reshape its policies, said Mao Jian.

Because of its brimming labour force pool and diminishing domestic employment opportunities, China is bound to encourage contract work abroad, he said.

On the other hand, contractual labour export is of mutual help to the places concerned, especially the developing countries, Mao said.

China's overseas labour force has helped many countries in Africa and Asia to build a number of large construction projects, including highways, railways, bridges, stadiums, plants and other public facilities.

Beijing is currently busy in preparations for hosting the 12th Conference of Asian-Pacific Labour Ministers, with strengthening cooperation on labor affairs one of its main topics.

So labor export, according to Mao, is not only of interest in reducing China's employment pressure, but also a beneficiary to the countries which very much need experienced labourers.

Also, the lucrative international market is likely to lure Chinese technical workers and other personnel who are likely to add to China's foreign currency reserve, Mao said.

Many debtor nations in the world rely on labour export to improve their international revenue and expenditure balance.

China brought home about \$2 billion via contractual projects abroad last year. It has set \$3 billion per annum as the target in the future.

Chinese Labourers working in foreign countries may also learn advanced technology and management skills through their experience. Labour export can also lead to the export of commodities, including building materials and construction machines.

In addition, the increase in the labourers' personal earnings will benefit domestic consumption and add up to investment, Mao said, because money from abroad could buy more from the market.

Mao also pointed out that attitudes which hold that a great nation like China should not export manpower are detrimental to the country.

He went on to explain that labour export would not create a domestic talent drain because there is also a surplus of technological and managerial personnel in the country, in addition to great amounts of redundant workers and farmers.

To expand its contracting projects scale abroad, Mao suggested that the Chinese Government ought to keep a keen eye on the international labour market and form its own development programme.

Experts have predicted a continued vigorous market despite a temporary setback as a result of the Gulf war, which ended two months ago.

After two years' retrenchment, China has reduced the number of firms claiming overseas projects from 300 to 110, and strengthened their management.

Besides the Middle East market, the country has developed several other markets in Asia, the Soviet Union, Africa and Western develop regions.

Last year, it designated a contractual business volume of up to \$1.2 billion in the Asian market, \$500 million in the Soviet market and \$300 million in the African market, which averted a bitter economic loss in the Middle East market.

Mao said that for China to gain a foothold in the international labour market, it needed government support, including preferential policies on loans and taxes.

He also urged departments concerned to improve their management by simplifying screening and approval procedures, providing technological and linguistic training and keeping labourers abreast of the newest information.

China started to export labour in the early 1980s, following the adoption of the open door policy. So far, some 360,000 people have worked abroad.

In the beginning, Chinese labourers were chiefly confined to civil engineering projects. Later they expanded in to road-building, metallurgy, the chemical industry and geological exploration.

Chinese professionals, according to Mao, will also prove strongly competitive in enterprise management, technological guidance, equipment and facilities maintenance, computer software services and in highly sophisticated technology such as the launching of satellites.

## POPULATION

### Article Describes Birth Control Practices

91CE0422A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 3, 1 Mar 91 pp 81-89

[Article by Chu Hsiao-yang (4281 2556 7122): "Procreation ('The Chinese People—Running Toward Paradise,' Part 1)"]

[Text] Since the 1970's, to control population growth, the Chinese government has made an unprecedented effort and has listed family planning as one of its basic national policies.

The state has established a Family Planning Commission, and the family planning organs are set up like a pyramid, similar to other organs of political power in China. In a certain sense, the country is like a huge cobweb. At the center of this cobweb is the State Family Planning Commission, and along its outer edge are the peasant small groups, neighborhood small groups, and the workshop or section teams. There are around 150,000 specialized personnel serving this system.

Procreation is no longer a private matter.

The state has decided that the total population should not exceed 1.2 billion people by the end of the 20th century. This quota is handed down the line, pyramid-style, through various state organs from level to level. Eventually, how many children each workshop, each neighborhood committee, and each peasant small group has and who may have children are all put into the state plan.

### Chapter 1: The Movement

**It is a crime not to practice birth control. Family planning propaganda blot out the sky and cover up the earth. They shroud every corner and are disseminated everywhere.**

Since the universal implementation of this world-renowned plan to mobilize the nation to eliminate children, "200 million fewer babies have been born in China than projected based on the 1970 birth rate." This was what Peng Peiyun [1756 3805 7189], minister of the State Family Planning Commission, told me in an interview.

### Only One Child

Peng pointed out that China's family planning policy "advocates late marriage, delayed childbirth, and fewer and better babies. It advocates one child per couple. With rare exceptions, state cadres and workers and urban residents should have only one child per couple. In rural areas, certain groups of people do indeed have practical problems, including families with one daughter, and if they request permission, they may have a second child after a few years. But no matter what, they may not have a third child. Even in the minority nationalities regions, the state is advocating family planning. The specific needs and methods are to be decided by the relevant provinces, municipalities, and autonomous regions in accordance with local conditions."

In leaflets entitled "China's Family Planning" printed by the State Family Planning Commission in 1987, it says that China's family planning policy is made up of three main parts:

1. The procreation policy (omitted here because the content has just been outlined by Peng Peiyun.)
2. The incentive and restriction policy: In addition to stepping up propaganda and education, certain economic incentives and restrictions are also being used as supplemental measures.
3. Technical policy: Comprehensive birth control measures, with the main emphasis on contraception, are advocated. The people have a choice of contraception methods. The state provides all sorts of birth control pills and technical services free of charge.

The leaflet points out that the principle behind China's family planning practice is "to combine state guidance with the people's voluntary cooperation." But everybody

knows that this is a state-controlled procreation plan set up to resemble a "mass movement."

### Going "Outside the Great Wall" To Have Babies

In 1983, I took the westbound Long-Hai train headed toward Jiayuguan. On the way, I saw many peasants and their families crowding onto the train. These people were going to border provinces to look for work. Among them were many young women. They had little children in their arms, but they were also pregnant. I did not understand why they would follow their husbands to the west while they were six to seven months pregnant. I asked the peasants if there had been some kind of disaster in the villages and that was why everybody was leaving. They said, "We come out to have babies. We are not allowed to have them at home. They fine us and arrest us. So we go to Xinjiang to hide."

In the months and years I spent in Xinjiang, I have been to Tianshan's hinterland in Ili, the shores of Lake Bosten in Bayingolin, and the Tarim Pendi. Everywhere I went, I saw huge "mobile populations" who had come from the interior to have babies. Here I want to tell the story of one man:

In Xinyuan County's Zeketai, there was a peasant called Li Qi [2621 6386]. He came to Xinjiang because his hometown had set up a family planning program, and he was fined. His wife was "a disappointment," because she had a daughter. The whole family was upset. The next year, they tried again, nevertheless she had another daughter. In the third year, Li Qi thought and thought and decided it would not do to be without a son, and he did not care how much the government was going to fine him. He and his wife went ahead and had another baby, which turned out to be another girl. There was nothing Li Qi could do. He was being fined 1,000-2,000 yuan a year, but his children were not allotted land, nor would they have residence registration right. Worse yet, he would be fined even more if he had another child. So he took his whole family to Xinjiang. When he first arrived, he looked up a friend who had come from the same village. This friend took him to see the team leader. He brought a couple bottles of wine along, and after drinking with the team leader for half the night, he was allotted some land and was allowed to set up household there. Once he got his land, he rented a tractor and began tilling and sowing. Around July-August, his wife gave birth to a baby boy. The whole family was overjoyed. Before they knew it, the field had turn golden yellow: The crops which had been ignored were ready for harvest. They rented a combine and began harvesting. Li Qi was happy. He said to me, "The only drawback with this place is there aren't enough older people around. It is too quiet. Before New Year's, my brother-in-law came from the interior, and I told him to bring his wife next time. They still have no sons."

### Everything For the Sake of Birth Control

The momentum of family planning propaganda is unlike anything people have seen anywhere. Someone who

visits China for the first time will be shocked first by the sheer number of people and then by the family planning propaganda materials that blot out the sun and cover the earth, shroud every corner and every inch of space. Whether on the streets or in the villages, everywhere, there are family planning posters. In Beijing, people mostly see the symbol of "sweet happiness": One couple with one child, the Chinese-style "sacred family." It uses a positive approach to suggest that one should think about contraception and birth control early. In the villages, things are not that subtle. Instead, they raise their fists and shout, "Insist on Birth Control," or they viciously warn that "Unauthorized Removal of IUD Is a Crime."

Besides slogans, every possible medium is used to spread family planning propaganda. Movies of course are a natural medium, and every Sunday at 11 AM, CTV runs a special program called "Population and Family Planning." In addition, they also put on street performances in the form of skits and raps to satirize traditional concepts which discriminate against daughters in favor of sons.

On Beijing's very crowded Wanghujing Blvd., there once was a family planning propaganda team made up of neighborhood old ladies. Two ladies would team up and perform a rhymed dialogue in which one would say, "Condom. Good." The other would say, "A hole," at which time the partner would take a step forward and gesture with her hands and say, "Dangerous!" Recently, they are using rock-and-roll music set against scenes of crowded bus stations, restaurants, and wherever there are huge crowds. The whole nation sweats as they play this song called, "No More Crowds."

Comic dialogue which is ever popular in China is often used to spread family planning propaganda. Newspapers are an even more important medium. There are dozens of specialized newspapers, such as ZHONGGUO RENKOU BAO. In addition, there are other "newsletter"-type propaganda materials.

The propaganda measures have created a world of posters, slogans, and loud speakers encountered only during the "Cultural Revolution." In addition, technical services are being developed at an unprecedented speed.

After 12 years of research, Dr. Zhao Shengcai [6392 3932 2088] of Shanxi Province's People's Hospital announced the success of his "reversible blocking of the sperm duct method" in 1984. This procedure requires only an injection of an instantly solidifying liquid into the sperm duct to achieve instant contraceptive effect. The patient can return home immediately after the procedure and resume normal activities. If one decides to have children later, the blockage can be removed. When Dr. Zhao first succeeded with this method, he gave himself a shot, becoming the first person to enjoy the fruit of his own success. This method has become very popular. People from Hebei, Henan, and Shaanxi travel for thousands of li to Shanxi for the procedure. Li Shunqiang [2621 7311

1730], chairman of Chongqing City's Family Planning Science and Technology Institute, has also developed a similar "blocking of the sperm duct by injection method." Nationwide, more than 500,000 people in 24 provinces and cities are using these methods.

At one time, it was as easy to obtain birth control pills as it was to run down the street to get a newspaper. On the main street and down the alley, in the village or in the city, drugstores everywhere always had jars or boxes full of birth control pills or other means of contraceptive lying on the counters. People could just take what they wanted without the embarrassment of having to ask the salesmen and without paying for them. In the factories and in the villages, family planning workers would come up and say, "need some of 'that stuff'?" and would stuff packages of birth control pills or condoms in your pocket. If you want to get married, there are schools for newly-weds, and you must finish family planning classes before registering for a marriage license. As soon as the marriage ceremony is over, you must sign a contract agreeing not to have children within the next two to three years—the actual duration depends on the specific unit's birth quota.

A net has been stretched over the whole of China to control procreation. The presence of family planning can be felt everywhere. It reaches into every link and controls everyone. With this huge net, the policy of family planning forges on vigorously.

## Chapter 2: The Son-Snatching Goddesses

**The people hate the CPC for taking their money, their lives, and their parenthood. Taking lives refers to family planning and the crackdown on above-quota births.**

Chinese people have always revered the goddess of sons. In the north, south, east, and west, there are shrines for worshipping the goddess every 10 li and in every other village. Seeing how people revere this goddess who sends sons and grandsons to families, how do you think they feel about the family planning cadres whose job is to end their lineage?

For nearly 20 years, China's population did not exceed the 1.3 billion mark in the 1980's, but it did reach the 1.1 billion mark. Peng Peiyun, minister of the State Family Planning Commission, says China owes its "200 million fewer births" to the 150,000 specialized family planning cadres. These son-snatching goddesses have an arduous task. From what one reads in the newspaper, one cannot help but be sympathetic.

## The Tender Stories

Hou Zhiying [0186 1807 5391] has been a cadre working on family planning in Shangdong's Liyi for more than 20 years. Today, she is still earning only 21 yuan a month. In comparison, the average family planning cadre in the townships (towns) nationwide was earning 62.8 yuan in 1987, and even then, their wage level was below the national average for cadres. In some localities, such as

Shangdong's Yishui County, family planning cadres do not even have workers' insurance or health care, nor do they receive bonuses or subsidies.

To mobilize women who are having above-quota children to go to the hospital for operations, Xu Ruiping [1776 3843 5493], a family planning assistant in Jiangsu Province's Dafeng County's Xituan Town, has to make arrangements to get other people's crops harvested and take other people's kids to the see the doctor when they are sick. Once she took care of a woman who had just had an operation and whose husband was out of town. For three days, she slept on the floor and ate leftover food.

To let the people see for themselves the benefits of birth control, Sun Jixian [1327 4949 0341], family planning assistant in Hebei Province's Ciqian County's Guantai Town, sent his own wife to the hospital to become the first woman in the town to have a birth control operation.

Huang Shuilian [7806 3055 5571], vice chairman of the Family Planning Office in Fujian Province's Minhou County's Gangzhe Town, knows every intimate detail about the more than 9,000 women of child-bearing age in her town. She has set up a "one-check, 13-book" system. She keeps a record of every single and newly wed woman in town, from their menstrual period to pregnancy, from delivery to birth control, and from health insurance to death. One year, a young girl not yet of legal marrying age ran away to the next village to get married. Huang Shuilian personally rushed to the scene on the girl's wedding day to stop the wedding.

But if you think all family planning activities are handled this gently and all stories are as moving, you cannot be more wrong.

### The Bloody Stories

It even took me a long time to notice the smell of blood in the pro-elimination versus anti-elimination of children movements. In the early 1980's, a friend of mine who worked in a children's hospital told me a story. She said, one day, a peasant woman came to the hospital to have her baby. When she was about to give birth, the doctor asked her if it was her first pregnancy. Her answer, "my third." What! So the doctor followed procedure and gave her a shot and delivered the baby who was born dead. The doctor told the peasant woman that it was "still born." The woman cried, "I am so unlucky. My first two babies died, and this one is also dead." The doctor was stunned.

In 1987, in a township in Hebei's Baxian County, the mayor and the party committee secretary gave me a "report" on how difficult it was to implement the family planning policy. They said, "The central authorities' documents told us to use means the masses would accept and to persuade them to practice birth control voluntarily. What are acceptable methods? The people hate the CPC guts for, one, taking their money; two, for

taking their lives; and three, for ending their parenthood. Taking lives refers to birth control. Damn it, we don't care. First, we work on these people. We go to their homes once, twice, and nothing works. Hide? You will have to come home sooner or later, and as soon as we find out that they have returned home, we send militiamen at night to grab them, and we will go along. We send them to a clinic to have an operation. Some get away, they have babies, and so we fine them, but they say they have no money. They say take whatever you want, there is no money. So we search their homes. Even their houses are not worth anything. What can we do? We just grab the pots and pans and go."

### "The Ghosts Are Coming"

Many other villages are equally ruthless in implementing the central authorities' family planning policy. A recent newspaper report told of the struggle between the family planning work team and the peasants of Liaoning Province's Yingkou County's Tangchi Town. The story is not unlike those of the counterattacks during the War of Resistance Against the Japanese in the Jizhong Plains some 50 years ago.

In 1985, Yingkuo County had seven above-quota births. It was one of the province's advanced family planning counties. It was not until 1987 that the higher authorities found out that the county's Tangchi Town alone had 104 above-quota births in 1985, although it had reported only four. In 1987, Tangchi Town had as many as 361 above-quota births.

Under this embarrassing situation, one can imagine how terrified the town's party committee was. The town's mayor, Feng Jiaquan [7458 1367 0356], decided to stop everything and concentrate on family planning. The method it chose was to direct the town party committee and the town government to separate the town into sections and hand down responsibilities section by section. The government functionaries were responsible for the villages, and the village cadres were responsible for the individuals. The town also set up a family planning team to facilitate this task, and this team set out to crack down on violators.

Meanwhile, in rural areas, peasants also began to organize themselves. They gathered the children to stand guard at the edge of town. "As soon as the work team appears, light the fire, shake the trees, or run to the village and yell, 'the ghosts are coming, the ghosts are coming.'" Wherever the work team went, they were attacked. One afternoon, a woman who was pregnant with an above-quota baby was found in her house, and when the work team tried to enter, she threw a pot of boiling water at them. Since the work team was led by the village cadres, the peasants who were fined were particularly mad at the village cadres, calling them "ghost cronies," and after the "ghosts" were gone, the "ghost cronies" often found their pigs poisoned, their barns burned, or themselves threatened with bodily harm.



Using a combination of hard and soft tactics, however, Tangchi Town's party committee managed to put an end to the above-quota births. In 1988, 240 of the town's women who were pregnant with above-quota babies had abortions, 14 had tubal ligations, and 216 women had IUDs inserted. At the same time, the town also expelled from the party five members who had put having babies above party membership, dismissed more than a dozen women from their jobs, fired several staff members, and imposed stiff fines on several households with above-quota births.

### Giving Up Party Membership For a Son

Using party discipline or job dismissal to pressure a cadre or worker is an effective way to force through the family planning policy in cities. For "serious violation of the family planning policy," Zheng Fuliang [6774 4395 5328], deputy mayor of Hebei Province's Cixian County, who exceeded family planning quota by having a fourth child and who has been hiding his misconduct from the authorities, was recently expelled from the party and was relieved of his duties as deputy mayor and was discharged from his job (put on probation for one year.)

Before it was discovered that he was having a fourth child, Zheng had gone to great lengths to hide the truth, even to the sorry extent of denying that the son was his and putting the child under his cousin Zheng Futang's [6774 4395 1016] care. He told others that the son actually belonged to his other cousin Zheng Fulin [6774 4395 2651]. He was exposed by the people. Since 1983, inspectors had been checking up on him, but every time, he managed to hide the child. It was not until 1988, after a prefectural party committee joint investigation, that evidence was found, and Zheng Fuliang was forced to admit that the child was indeed his.

He Qishun [0149 0366 7311], mayor of Sichuan Province's Jintang County's Zhangluo Township, was expelled from the party after his second child was born. He was in charge of family planning, and when his wife was first discovered to be pregnant "out of plan," he assured the county and district party and government leaders that his wife would have an abortion promptly. Later, he presented evidence to his superiors saying that his wife had indeed had an abortion, but in fact his wife had been admitted to the Number 7 People's Hospital under the name Zeng Ying [2582 5391], and they had their second child soon after.

### The Eyes and Ears of the Neighborhood Committees

The urban neighborhood committees are a dedicated force in facilitating the state's family planning policy. These old ladies who cannot see very well nor hear very clearly nor have much mobility are the only people who know their neighbors intimately and who are given the responsibility of supervising them. Just think: A factory team leader may see his team members at most eight hours a day, six days a week. Other than that, who knows

what these people are up to? Are they in love? Do they date? But these neighborhood committees know everything. In the winter time, every time I went out and passed this old lady wearing red oversleeves standing by the road side in the alley, I would be filled with admiration. Only with their help can the public security dispatcher find out whose house has an unreported house guess, which couple is quarreling because of their unhappy sex life, and which household is hoarding grain with the intention of making an illegal profit. These people make so little money but take care of so many things. One cannot help but be filled with admiration.

In early 1989, when we were taking pictures of the Beijing Haidian District's Huayuan Road Neighborhood Committee, we found a cabinet in the office. Inside were several files containing information on the local residents. One file contained index cards on all the single youths; a second contained index cards on women of child-bearing age; a third contained index cards on pregnant women, and the fourth contained the district's family planning information. The records were very well-kept, and these old ladies who made up the patrol party were being paid only 40 yuan a month.

### This Old Lady Eliminates "Hidden Problems"

A report entitled "Great Explosion in the East" tells of the story of how an old woman from Beijing Municipality's Chongwen District carried out her family planning tasks. The old woman said, "Family planning work is not like public health work. One can easily see if some nook or cranny is not clean or garbage is piled behind someone's house. You just get the people to come and clean up. But when it comes to someone's belly, for the first two-three months, if you don't say anything, who would know? By the time it is discovered, five months have passed. To say that this is more pressing than putting out a fire or plugging a leaky dyke may be an exaggeration, but after the seventh month, the hospitals are not willing to perform an abortion, because it is too dangerous, and I of course am not going to do anything. If she wants to stall, it is because she wants to make it an 'accomplished fact.' Our goal is to eliminate the 'hidden problem' in the first two-three months. We are not Monkey Sun. We do not have magic eyes, nor do we have extraordinary abilities. We only go by two rules: First, make a separate entry of anyone who is able to have a second child, keep a record of the key suspects, check on them regularly, write down everything, and take care of any problem on the spot. Two, if there is anything suspicious, don't let off. Investigate until everything is cleared up."

"A worker at the Longtanhu Park was injured at work. His wife used to work at the Huashi Department Store. The organization made special arrangement for her and transferred her to the Longtanhu Park so that she could stay home and take care of her husband. Last year, during New Year's, the whole family disappeared. We went to the neighborhood to see what was going on. The neighbors said they had gone back to their native home. We went to the unit to check the records. The husband

had no family, and the wife was originally from Beijing. Once the husband told a friend, 'I am crippled, and all I have is a daughter. Although my wife can take care of me now, when she gets old, what then?' As soon as we heard this, we knew this was a 'dangerous man.' We took turns guarding his house, because if they were hiding somewhere to try to have a baby, sooner or later, they would have to come home, at least to get a change of clothing or something. Unless they have abandoned their house. We waited for 10 days or so, and sure enough a man dressed like a peasant who said that the woman was his aunt showed up. I asked him, 'Where is your aunt? The public health station is checking all children under seven for some kind of contagious disease. All the children in this alley have been examined. When is your aunt's daughter coming home?' It would not do to tell him about our family planning business. So we lied. When he heard that, he immediately gave us an address. I turned around and headed for the bus station and bought a cross-town ticket. When I arrived, I found the whole family setting up camp, ready for a long battle. Under the circumstances, there was not much I could do but to rely on the unit to put pressure on them. Long delay would only mean more hitches, and if not careful, the whole family could slip away again. So I went back to Beijing. I did not even bother to go home. I went straight to Longtanhu Park. As soon as the park leader heard my story, he firmly told me, 'Don't worry. We will send someone immediately. If the woman dares to make taking care of her husband as an excuse to secretly have another baby, we will fire her.' At the end, she came home and had an abortion."

#### Family Planning Cadres Physically Abused

Ultimately, most old ladies can at most serve as eyes and ears. They may come to your house and bother you and persuade you to have an operation, and no matter how furious you are, you cannot very well hit them. It is exactly because these neighborhood old ladies are so sincere and so eager to get to the bottom of these awkward matters that the cities' family planning tasks can be carried out so successfully and without a fault. Some factories in Beijing have set up joint defenses with the neighborhood committees where their factory workers live, and each couple registering to get married are brought by the factory's family planning officer to the neighborhood committee to sign a contract. During the day, the couples are watched over by the factory family planner officers, and by night, they are supervised by these indefatigable old ladies. As soon as a pregnancy is discovered, it is immediately reported to the unit which will either demand an abortion or impose a fine.

To many local family planning cadres, being beaten or insulted are everyday occurrences. On 6 December 1987, cadres of Henan Gongxian County's Shijing Village and members of the township family planning small teams met to discuss the issue of how to deal with Li Erhan [2621 0059 3352], the village branch party secretary who had seven above-quota children. Li Erhan's brother, Li Wanqing [2621 5502 0615] barged into the conference

room and hurled insults at the other party branch secretary, Li Hua [2621 5363]. One of the villagers tried to intercede and was also beaten by Li Wanqing.

Lei Baocui [7191 1405 5050], family planning cadre in Hunan Province's Xintian County's Taoling Township, discovered that fellow villager Li Beifa [2621 5926 4099] and his wife were having a third baby and went to talk to them. Li's father yelled at her. Soon thereafter, the old man died of a stroke after drinking heavily. Li's family tied up Lei and forced her to mourn for the deceased and injured her in a beating.

In Zhechong Village in Henan's Changning County's Pengtang Township, several villagers jointly sent a letter to the news unit to report that the village's party branch secretary, Tan Guocheng [6223 0948 2052], had eight children. After the letter was sent, Tan sent his brother-in-law to beat up Tan Jixiang [6223 4949 4382], the villager who wrote the letter. He also suspected that another fellow villager, Tan Zhengsheng [6223 2973 3932] who ran a restaurant in the county town, also had a part in sending the letter. He brought his wife and daughters along to beat him up.

Teng Xinshe [5671 5647 4357], a secretary in charge of above-quota births in Xinjiang's Karamay Petroleum Bureau, was angry at the family planning propaganda officer, Li Ying [2621 5391]. He took a dagger and stabbed him to death on the spot.

Since 1986, Hunan Province's family planning cadres have reported 627 incidents of physical abuse; 935 cadres have been beaten.

Confronted with such barbaric behavior, the same Hunan Province's family planning cadres have equally tough measures of their own to deal the peasants.

#### Cracking Down on the Barbarians

On the afternoon of 26 November 1985, Wang Youhua [3769 0645 5478], deputy mayor of Hunan's Linxiang County's Wulipai Township, led several cadres to the township's Qianyue Village and tried to drag two women, Fang Xiaozhen [2455 1321 3791] and Yu Ping [0151 1627], to see if their IUDs were still in place. The two women's husbands quarreled and ended up fighting. Neither women went to the hospital, and the deputy mayor was injured in the midst of it. When Li Binsheng [2621 2430 3932], the township party committee secretary, learned of the news that same day, he rushed to Qianyue Village to make arrests and impose fines. He locked up six people in the township government office. That night, he led more cadres to the village to arrest two more peasants who had hurled insults at and beat up the cadres that day.

At the time, Li Binsheng took "extreme measures" to deal with the villagers' violation of family planning policy. The county court ruled that Li's "extreme measures" included forcing two villagers to kneel on the threshing floor and locking up and interrogating the

peasants in the township government office. During the detention period, the prisoners were only allowed to go to the bathroom in the nearby vegetable plots as ordered by Wang Youhua, the township deputy mayor. The villagers were released after three days. The incident started a bitter feud between the villagers and the township government. The peasants who had been arrested took their case to the county court.

On 21 September the next year, Li Binsheng and Wang Youhua were arrested at a family planning meeting convened by the Wulipai Township. On 19 February 1987, while several thousands at the county courthouse applauded a moving speech in defense of Li and Wang, they were found guilty of illegal arrests and were sentenced to 18 months and 12 months, respectively, imprisonment.

Li and Wang's case had a huge impact on Hunan Province. Reportedly, because "the incident produced seriously psychological damage among the grass-roots cadres," Lixiang County's family planning ranking fell to next to the last place among the six counties under Yueyang City's jurisdiction. Wulipai Township's family planning work was paralyzed immediately after the arrests of the secretary and deputy mayor at the family planning meeting. Provincewide, Hunan had 460,000 illegal above-quota births in 1987. This came to 33.9 percent of the province's total birth. The reason, it is said, was that "the punishment of one warned a hundred," and the other grass-roots cadres were afraid to work on family planning. A popular jingle among the grass-roots cadres goes like this: "When it comes to family planning, yell a little louder but take it a little easier; under-report a few births and let the people have a few more babies, and everybody will be happy."

Another year went by, and at the Seventh National People's Congress, Hunan Province's seven delegates brought up the two year old "Li, Wang Illegal Arrest Case" and questioned the Lixiang County Court's decision. They asked, "You did not have to make a case out of it. Why did you?" "Why did you find the two cadres guilty?" "Why did you ignore the social consequences when you ruled on this case? Why couldn't you be practical and realistic in handling the case. Why was it so difficult to seek unity of thinking?"

The queries of Hunan's seven People's Congress delegates made headline news in the April 1988 edition of the ZHONGGUO JIHUA SHENGYU BAO (later renamed ZHOUGUO RENKOU BAO.) Reportedly, it triggered "strong reactions."

It is a simple fact that family planning cadres generally do not enjoy much popular support. In recent years, the state has been holding direct elections of officials at below county rank, and there have been winners among candidates who used to be family planning cadres. When Henan Province's Lushan County held its election, most failed candidates for township mayors were those who had worked for family planning.

On 21 February 1989, Minister Peng Peiyun of the State Family Planning Commission was forced to admit that the population increase situation is much more serious than imagined. In April, the 1.1 billion dyke was broken through, and each year between now and 1997, 13 million young women will reach their peak child-bearing age. This is nearly twice the number during the previous two peak birth-rate periods since the founding of the PRC. The State Family Planning Commission has urged the immediate enactment of the "Eugenic Law," "Regulation on Fines For Illegal Marriages," and "Methods Pertaining To the Management of Family Planning of the Mobile Population." The situation is very much like people crying out in fear in the face of an imminent flood.

### Chapter 3: The Mighty Procreation Torrent

**What is there to live for if one is not allowed to have children? Many people are determined to have babies even if it meant their own death. Fines may be a deterrent, but they have also become the price of above-quota births.**

Here, I have compiled some stories as reported in the newspaper to show the readers the people's amazing determination to have children, and how they are forging ahead despite the authorities' long arm of family planning law.

#### They Simply Want Sons

On 7 June 1988, Shanghai's very crowded Xinhua Hospital admitted a woman patient whose abdominal and pelvic cavities had been blown up and her uterus torn apart. Her husband who took her to the hospital cried and begged the doctors to save his wife as he told the doctors what had happened. It turned out that several years ago, he and his wife had a baby girl, and subsequently, according to family planning regulation, an IUD was inserted in the woman's uterus. The husband had since been trying to figure out how he could remove this device which would end his lineage and render him without sons and grandsons. Recently, he came up with the idea of blowing up the IUD, and he went to the store and bought himself a "dingwan zhuziguan" and inserted it in his wife's vagina, and detonated it.

Fang Quancheng [2455 0356 2052] was a cadre with the Forestry Station in Fujian Province's Dehua County's Shuikou Township. In 1983, his wife got pregnant, and Fang announced that, "If it is a girl, kill it." His wife did have a girl, and from the very first day, Fang hated his daughter. He often told his wife that he wanted to kill or sell the girl so that they could have a baby boy. On 11 July 1987, he sent his wife away, and while his daughter was sound asleep, he killed her.

Mao Changhuan [3029 2490 3883], a woman of Tujia nationality in Guizhou, had rheumatic heart disease, but after she got married, she stubbornly gave birth to three children before she died. Her first baby girl was born premature, and she herself was so emaciated that she looked more like a ghost. Her husband forced her to have

an IUD inserted. But three years later, Mao found a fortune-teller who told her that her second-born would be a son. She secretly went to the hospital to have the IUD removed. Before long, and after two days and two nights of painful labor, Mao gave birth to another premature baby girl. Even then, Mao said to her husband, "How can you stand people calling you 'an ox with its tail cut off' and how can you stand their insults because we have no sons? No, I will have a son even if it costs me my life." Two years later, she gave birth to a boy, but she herself never got up again.

At dawn, on 8 August 1988, in Fayu Township in Xingyi City's Bangzha District, a fire could be seen burning on a dark hillside, and one could also smell the odor of burning flesh. Beside the fire stood a woman. Her hair was dishevelled and her eyes were lifeless. Her name was Li Fuzhen [2621 1381 3791], and the man roasting in the fire was her husband. Several hours earlier, her husband had dragged her out of bed where she had been putting her second daughter to sleep. He said, "While it is dark, get rid of her. We can have another baby without violating family planning regulation." For many years, because she had given birth to two daughters, Li had been abused by her husband, and she could not stand it any more. Catching her husband off guard, she grabbed the iron bellows and hit him in the head. She struck him twice, and he fell off the bed. He held up his bleeding head and struggled, but not for long. Later, Li dragged the body to the hillside some 50 meters from the house and used a piece of kerosene-soaked burlap to start a fire and burn the body.

#### **Producing a Son From Borrowed Seeds**

Since she had two daughters in a row, Zheng Luelian [6774 3970 5571] of Hunan Province's Pingjiang County's Qingshui Township's Jinghua Village suspected that her husband was unable to have sons. She secretly arranged with Wei Tangrong [7614 0781 2837], a man who lived in the same village and who had four sons, to borrow his seeds in hopes of producing a son. They had illicit sex on several occasions, and in April 1988, she indeed gave birth to a baby boy.

In Hebei Province's Daye County's Yinzu Town's Huangchu Village, Xu Meiyong [6079 5019 5391] who had a serious gynecological disease and could not have babies asked her cousin to bear a child for her. Xu who was always proud and who truly loved her husband did not want people to say that they could not have babies. She decided to find a woman to live with her husband and bear a son for him and then send her away secretly. Her husband concurred. Xu Meiyong tearfully begged her cousin Xu Xiuying [6079 4423 5391] who was single for help. Xu Xiuying agreed. The three of them signed a "procreation contract." Xu Xiuying would help Xu Meiyong bear a child and agreed that she would not leave if she gave birth to a daughter and would stay until she produced a son, and then she could leave and get married on her own. Six months later, she was pregnant, and Xu Meiyong and her husband hid her in the attic.

When Xu Xiuying went into labor in the middle of the night, they brought her to the county hospital where she was admitted as Yin Yonglu's [3009 3057 4389] wife. She gave birth to a daughter.

The above stories were made public as a way to educate the people and to warn them of the evil consequences of wrong doings, and so each story has its own moral ending. For example, Mao Chenghuan lost her life because she wanted a son. Her son was born deformed, with an O-shaped leg and an enlarged head. After Cheng Luelian produced her son from borrowed seeds, the sower, Wei Tongrong, would not let her alone. At the end, Wei poisoned her son with pesticide. As for Xu Meiyong and her husband who signed the "procreation contract," the cousin refused to leave and said she would marry nobody but Yin Yonglu. The husband did not object, took the baby home and told everybody that it was his and the cousin's baby.

#### **Nearly A Hundred Million "Black Babies"?**

The public's indomitable desire to procreate, as represented by these very disturbed people, is raging beyond the government's control. The fact is, only a handful of families ended up with the tragic consequences just described. Most parents who ignore the government and go ahead and have babies are happily throwing banquets to celebrate their family victory with friends and relatives, even after they have just paid a fine.

In Subei's rural areas, a man named Liu Yongkang [0491 3057 1660] set out to study the situation involving above-plan babies, known as "black children," who do not have residence registration rights. He wrote, "Village A just had a baby boy, who turned out to be Mrs. Liu of Village B's above-plan 'black baby.' Soon, Village B had a baby girl who turned out to be Wang so-and-so of Village C's third 'golden flower.' Then . . ."

According to Liu Yongkang's figures, this so called Village A's Number 3 Production team had 150 people, 15 of them, or 10 percent, were "black children." He made a simple calculation using this ratio, and to his surprise, he found that the country had an army of nearly 100 million "black children" who had no permanent residence registration right but who were consuming 100 billion jin of grain.

Another study conducted by the State Council's Rural Development Research Center estimated that there are 8 million "black children" nationwide.

#### **Corruption and Bribery**

The struggle for procreation rights, like the struggle to get everything else that are being withheld, including ration tickets, chemical fertilizers, and steel materials, has proceeded in the form of corruption of "power" from the very beginning, and the granting of procreation rights, like all other powers of rationing, has provided the best opportunity for corruption and bribery.

Last summer, peasants in Sichuan Province's Jianyang County's Sanchahu District joyously told others that "the procreation policy has changed. If you have money, you can have sons," and "600-700 yuan can buy a birth quota." Some women who were not allowed to have babies under government policies were showing off their bellies and telling everybody that they had quotas and even brought their "Procreation Notice," with the government's seal of approval, to show the family planning cadres. Within a short period, many people responded, and everyone wanted to try it. A township family planning supervisor reported the strange incidents to the county. After an intense investigation conducted by the County People's Procuratorate, they discovered that it was all a hoax contrived by a county doctor and a teacher. They sold the invalid procreation notices to the peasants for anywhere between 300 to 700 yuan each.

Dr. Chen Juzhang [7115 1565 4545] of Anhui's Funan County's Xutang Township often sold tubal ligation certificates for 50 to 150 yuan each. With the certification, one could prove that the pregnancy was the result of the hospital's negligence and would not be bothered by the local governments.

Even an operation can be phony. Dr. Li Haitao [2621 3189 3447] and intern Min Yuehui [7036 6460 6540] of Jilin Province's Dehui County Hospital charged only a few hundred yuan "gratuity" for a phony operation in which they only cut the skin and then sew the patient up again. When the patients return home, they can still have babies.

One village even turned the fines for above-plan births into a way to raise funds and to get rich. When the family planning cadres went to the village to check on the work progress, the village party branch secretary reported, "in 4-5 days' time, the village has raised 10,000 yuan. Today, all above-plan pregnancies have paid their fines. This sum of money is just enough to pay for paving the village's roads."

Such incidents are not uncommon. Recently, many localities have simply turned the fines for above-plan births into "negotiated price for a child." A family planning cadres from Jiangsu's Yangzhong County's Xinba Township said that preliminary data showed that 50 households in the township are willing to pay up to 50,000 yuan for an above-plan child; 200 households are ready to pay 20,000-30,000 yuan, and even more are willing to pay up to 10,000 yuan.

#### The Above-Plan Birth Situation In One Small Village

During New Year's in 1989, Shanxi's Luliangshan had a big snow storm which closed the mountain roads, and GUANGMING RIBAO reporter, Yang Rong [2799 2837], was stuck in a small village in the mountains. He later wrote a report on this village's family planning situation:

The village has 26 families. None has a radio or television. Of the 128 people living there, none had high

school education. What this village has is a population explosion. Many people do not get married here, but it is not unusual for those who did to have four or five children. The village's population has more than doubled since 1970.

In the village, 51 percent of the population is illiterate; 41 [as published] percent of the children of school age are boys, and 84 percent of the girls are deprived of schooling. Of the 30 or so workers, except for farming and sheep-rearing, there is no technical means of making a living.

Here, family planning is opposed by everyone, the old, the middle-aged, and the young. "What is there to live for if one is not allowed to have babies?" "There are three kinds of filial disobedience, and failure to produce a son is the gravest of them all." "He who has no son will be ashamed to face his ancestors." "Today, everything is good, except for family planning."

But there is a sure way to escape family planning here:

When the family planning cadres come to the village, the women of child-bearing age are out visiting relatives. When they are ready for their third or fourth babies, they quickly send their first two children away, or simply have their relocation certificates ready in their pockets. After they gave birth to their third or fourth babies, they take the babies to their relatives' homes in the middle of the night and bring them back a few days later, claiming that the babies had died and they are nursing someone else's babies.

The village cadres make up figures each year to deceive their superiors. Last year's natural birth increase rate was 2.6 percent, but the official figure showed 0.71 percent.

Fines are an important tool but are also an openly quoted price for above-plan births. If a specialized household is fined for having a second child, he may ask, what is the fine for a third child? If the answer is 500, he will voluntarily hand over 500 yuan, and the cadre will say, "You may have three kids."

## AGRICULTURE

### Yunnan Attempts To Achieve Grain Self-sufficiency

91CE0497B Kunming YUNNAN JINGJI BAO  
in Chinese 19 Feb, 26 Mar 91

[Article by staff reporter Chen Wei (7115 5633): "A Study of Attaining Grain Self-sufficiency in Yunnan in 1995"]

[19 Feb p 1]

[Excerpts] Editor's note: Agriculture is an important industry restricting the economic development of Yunnan Province. Attaining basic grain self-sufficiency in 1995 has a decisive impact on the economic and social development of the whole province. Our staff reporters and comrades of agricultural departments held helpful



discussions and wrote a series of reports on the question of how to attain this strategic goal set forth by the provincial CPC committee and government. [passage omitted]

During the 41 years following the founding of the PRC, especially during the 10 years of reform, Yunnan's grain production greatly developed. But when compared horizontally, there is still much to be desired. Prominent manifestations are low per-capita output and slow increase rate of per-mu yield. Calculated by grain acreage, during the 41 years since liberation, the average annual per-mu increase rate in Yunnan is only 2.13 kg, 51 percent lower than the 4.35 kg of the national average; and the average annual per-mu grain increase of Yunnan is only 1.5 percent, 1.7 percentage points lower than the 3.2 percent of the national average. In 1989 the national average per-capita output of unprocessed food grains was 362 kg, and that of Yunnan was only 273 kg, 24.6 percent or 89 kg lower.

During four years of stagnation in Yunnan's grain production, over 1 billion kg of grain had to be imported every year, and in one year, 1.5 billion kg of grain had to be imported. In 1990 Yunnan's total grain output exceeded 102.5 kg [as published] for the first time. Although Yunnan's grain production made a breakthrough, reaped a bumper harvest, and set the highest record in history, Yunnan's per-capita grain output was still lower than the 100 kg of national average in 1990.

In the 41 years since liberation, Yunnan has not been able to remove the label of "grain-deficient province." It has to rely on the "relief grain" from neighboring provinces to feed 36 million people.

Who likes to depend on others for his own survival! But how hard it is to make each step!

Crisscrossing the land in Yunnan are steep mountain ranges and between the tall mountains run torrents and rapids. Yunnan is a high mountainous area carved up by many river systems. Mountains occupy over 90 percent of its total area. Its per-capita arable land is 1.14 mu, lower than the national average level. Yunnan needs to feed its people and develop the dominant cash crops of tobacco, sugar, tea, and vegetables. Yunnan's irrigation level is 14 percentage points lower than the national average level and ranks 22nd in the country. Two-thirds of its farmland lacks irrigation. About 78.6 percent of Yunnan's existing 42 million mu farmland is medium- and low-yield land with poor quality. As for the ecological environment, Yunnan's forest coverage has declined from 40 percent in the initial liberation period to 24 percent. As a result the area of soil erosion has expanded to 140,000 square km, accounting for 38 percent of total land area, ecological functions have weakened, climate has become abnormal, and various disasters have occurred for consecutive years. There are more people than land. It is estimated that by the end of the Eighth

Five-year Plan period Yunnan's population will increase to 40 million and per-capita arable land will decrease to one mu.

This is the reality facing Yunnan's grain production!

The next 10 years are a critical period for China to double its GNP and raise its people's living standards to a comfortably well-off level. Food is the most important issue to the people. The basic issue of feeding 36 million people by itself has become the most urgent task in Yunnan. The central government has issued a call to all grain-deficient provinces in China: raise the self-sufficient rate of grain.

In 1990 the Sixth Plenary Session of the Fourth Yunnan Provincial CPC Committee set forth a strategic goal. That is to attain basic self-sufficiency in grain by 1995 or a little later.

What is the concept of attaining basic self-sufficiency in grain?

According to the arrangement of the provincial CPC committee and government, Yunnan's grain production plans for 1995 and 2000 are respectively 12 billion kg and 14 billion kg; the natural growth rate of population should be kept under 1.4 percent; Yunnan's total population should be under 40 million in 1995 and 43 million in 2000; and absolute grain increase should exceed 350 million kg every year beginning 1991.

A comprehensive study of Yunnan's grain production in the past 41 years shows that except for the 1952-56 and the 1979-84 periods in which Yunnan reached the abovementioned growth rate, the average growth rate of normal years was only about 150 million kg.

Attaining basic grain self-sufficiency in five to six years is an extremely arduous task. After repeated discussions and studies, the provincial CPC committee, the provincial government, and agricultural experts and workers have established a goal for attaining grain self-sufficiency and found a basic way of developing grain production. Beginning in 1990, Yunnan should build 25 million mu of stable- and high-yield farmland within six years. Centering on this task, Yunnan should persistently do a good job in farmland irrigation, soil improvement, and land levelling. It should rely on science and technology to revitalize agriculture, expand the coverage of science and technology, take the road of relying on science and technology, deep-level development, and intensive management and developing high-efficiency agriculture. It should strive to increase per-mu yield, increase total output, and ensure that grain production ascend to a still higher level.

[26 Mar p 1]

[Text] People refer to the agricultural scientific service system as the agricultural science network. Such networks crisscross the province, both well-managed and substandard ones face fund shortages and problems of

difficulty in building the system or poor methods of service. Some agricultural science organizations are but an empty shell. The intensity of the vitality of agricultural scientific service system also has an impact on the development of scientific and technological results. If we put all hope of improvement on financial input, we would have to follow the prescribed order and wait year after year.

According to agricultural departments, since 1985 Qujing Prefecture has offered paid services centering around agricultural scientific service. One of the services is selling a limited amount of plastic film, chemical fertilizer, and bacterial manure. The service station earned 206,800 yuan over a period of six years. With this money, the station arranged six demonstration and promotion projects, sponsored annual free training classes, provided nearly 20,000 information pamphlets for grassroots units, and increased its service capability.

Some localities outside Yunnan give grassroots agricultural science departments special policies which allow agricultural science departments to find financial resources by engaging in the management of enterprises. In other words, they are allowed to establish economic entities centering around service and then promote service after the entities are well established. This enables them to become to a large degree self-sufficient in funds and to revitalize the agricultural scientific service system while lightening financial burden.

The phenomenon of "hard-to-sell" grain once dampened peasants' enthusiasm for production. It was also referred to as a great "taboo" of grain production.

In 1990 Yunnan had a bumper harvest of grain. Thanks to the great efforts of the leadership and the rank and file, Yunnan managed to avoid the "hard-to-sell" phenomenon as a whole. However, this does not mean that all is well with Yunnan's granaries. According to the information of grain departments, currently a large amount of grain is being stored in all sorts of rented and borrowed places. Grain stacked outdoors cannot exceed six months. Many makeshift warehouses are leaking on the roof and wet on the floor, which worries people since the rainy season is near. State granaries are almost too full to be properly managed, which will cause a large amount of mildew and insect damage. Due to the shortage of warehouses, several hundred million jin of state-allocated grain cannot be shipped into Yunnan. In the Eighth Five-year Plan period, Yunnan needs 5 billion kg of grain storage capacity. The gap is as high as 1.05 billion kg. Besides, many existing granaries were built before the liberation and are of very poor quality. There is much to be done in the transformation of granaries. Since 1984 Yunnan's grain inventory has increased about 1 billion kg whereas its storage capacity has expanded only 500 million kg. Granary construction has lagged far behind the increase rate of grain production.

Grain departments say that failing to solve the granary problem is bound to affect grain production. The overall

shortage and poor quality of granaries in Yunnan remain a big problem which needs to be solved immediately.

No matter whether it is during the spring or autumn planting, what concerns peasants the most is the supply of farm supplies such as plastic film, chemical fertilizer, and pesticide. Grassroots units reflect that farm supplies departments in recent years have strengthened means of reserve and management, and the supply of farm supplies is much better than the previous years. However such phenomena as divorce of supply from demand, wrong varieties, and lack of stock are still affecting grain production.

In Yunnan farm materials are supplied mainly through farm supply companies and grassroots supply and marketing cooperatives. The two-line operation has often made it difficult to delegate reserves to lower levels during the off-season and caused cut-throat competition during the peak season. Especially in recent years all fees have gone up, and most grassroots supply and marketing cooperatives have lost money in farm supplies. This and many other objective factors have caused many inadequacies in the service of farm supplies.

How does the farm supplies system improve management and render effective service to agriculture? The Yanshan County Farm Supplies Company has found a way of one-line operation for the commodities of farm supplies: using the warehouses and shops of grassroots supply and marketing cooperatives, having farm supply companies manage and operate supply points in a unified manner according to the original supply plan, and dividing profits between the two parties according to the agreement reached between them. After the adoption of this method, not only is it easier for peasants to buy the means of production they needed but grassroots supply and marketing cooperatives have turned deficits into profits and farm supplies companies have increased management vitality. This method is worth promoting.

Among the scientific and technological projects promoted by agricultural science departments to increase production, the technique of "paper bag, directive corn transplanting" has been well received by peasants in recent years. In view of this, the Yunnan Provincial Farm Machinery Department imported from Jilin a "bowl-making machine" which can replace the method of growing seedlings in paper bags. The machine was promoted in 13 prefectures and autonomous prefectures in Yunnan and was well received by peasants everywhere. It has saved time and labor, and has also lowered per-mu production cost by about 10 yuan and increased output by 30 to 50 kg as compared to growing seedlings in paper bags.

Centering around agriculture, especially grain production, all service departments of Yunnan are using every possible means to strengthen service and improve service effects. I think that compared to the service system under which each department does things in its own way, service effects are far greater in neighboring provinces

which are currently carrying out a group contract system that integrates administrative, technological, and supplies departments.

**Liu Zhongyi on Improving Rural Socialized Services**

91CE0499A Beijing NONGMIN RIBAO in Chinese  
1 Mar 91 pp 1, 4

[Speech by Liu Zhongyi, agriculture minister, at the National Conference on Exchanging Experiences in Rural Economic Work: "Enhancing Socialized Services and Increasing the Level of Agricultural Productivity"]

[Text] **Socialized services are the objective requirements for raising the agricultural productivity level and strengthening management of the agricultural economy.**

Currently, and for quite a long time to come, several major tasks for developing agriculture must be done. First, we should reassure the public, protect the interests of agricultural producers, and arouse enthusiasm. Second, we should continue strengthening the construction of basic agricultural facilities and actively implementing comprehensive agricultural development. In the mean time, we must work to manage and fully utilize these facilities. Third, we should raise the scientific and technological level of agricultural production, disseminate scientific and technological achievements, and increase agricultural labor productivity, land yields, and investment results. Fourth, we must enliven the circulation of agricultural products and promote the comprehensive development of the rural economy based on a sustained, steady growth in agricultural production. Fifth, we must strengthen grassroots organizations, enhance their leadership roles, and increase their administrative level. Each of these five measures is in itself a set of arduous tasks which needs to be gradually fulfilled by adopting different methods and measures. In the meantime, they are mutually related, cooperative, and supporting. Thus it is evident that strengthening socialized services is a good way to promote and perfect these tasks.

The first task concerns the business management system. Currently, the household responsibility system practiced in China's vast rural areas is the basic system in the countryside. This system should be stabilized over the long term. Meanwhile, we must recognize that new conditions and new issues have emerged in the countryside along with the constant development of agricultural production, the gradual progress of science and technology, and the changes and developments in social and economic factors. For example, the lands under the contract responsibility system are scattered, distributed here and there, which makes it inconvenient for production management. The constant flow of population and labor greatly affects the stability of the responsibility system. Faced with the spread of science and technology, households under the contract responsibility system feel that adopting new technology is inconvenient or not

worth their while, or that they cannot adopt new techniques or some aspects of production, like breeding good strains, mechanized farming, timely irrigation, effective crop protection, and so on. It is quite difficult for individual households to manage all these things. In addition, in the process of economic transformation, in which the self-sufficient and partially self-sufficient rural economy is gradually being replaced by commercial production, issues such as material supplies, the direction of technology, and product sales for contract households have become more prominent day by day. We must face these new circumstances and new issues by proceeding from the actual situation and, based on stable, basic policies, must gradually solve these problems by making constant improvements.

The second task is to improve the basic conditions for agricultural production. Measures to comprehensively develop, manage, and use basic agricultural facilities, regardless of whether they involve construction, utilization, management, or maintenance, must all be socialized in nature to different degrees. In the past, we basically adopted the method where the government had responsibility for construction projects and for administration and management. According to experiences over the past several decades, we believe that general agricultural development and ordinary construction should be conducted so that peasants themselves take charge of the construction, with support, organizational guidance, and leadership from the government. It is better to practice socialized management and service.

The third task concerns the technologies and education for developing agriculture. The realities of rural reform and agricultural development show that in the future, sustained and stable development in agricultural production must rely more on science and technology, and on the dissemination and application of scientific and technological achievements and advanced, applied technologies. This can turn potential agricultural productivity into a reality. A system of rural socialized services will be an important institutional guarantee for achieving this transformation.

The purpose of the system of socialized services is to solve the difficulties and problems in the whole process of agricultural production, and to increase services for agricultural production. Not only can it help make the use of resources such as water, chemical fertilizers, pesticides, farmyard manure, and rural energies rational and effective, but it can also help reduce the costs of agricultural production and increase the ratio between inputs and outputs. In many respects, the quality and results of service depend to a large extent on the level of technology. Moreover, many practical scientific and technological achievements must be disseminated to farm households and fields through the service system for front-line agricultural production. We can say with certainty that science and technology, as well as education, are the important materials and the effective means for developing socialized services. In return, socialized

services are also the important channels and bridges for spreading science and technology and popularizing education.

The fourth task concerns circulation. At present, China's agriculture is shifting from a traditional mode of production to a modern one. The countryside is also moving from a self-sufficient or partially self-sufficient economy to a commodity economy. In this process, the system of socialized services is both the product of the development of the commodity economy and the effective means for accelerating the change. In the course of developing from offering a single service to offering comprehensive service, socialized services develop increased production usefulness and deepen and widen their usefulness in promoting production. Because of this, a new series of issues—such as pre-production supplies, production applications, and post-production processing, storage, and sales—have naturally arisen. Socialized services will naturally expand from production services to a series of services covering the pre-production, production, and post-production phases. Therefore, the development of socialized services links production, supplies, and sales, and is a good method for developing circulation channels and enlivening the rural economy.

Fifth, we must strengthen construction of grassroots party and government organizations, and effectively utilize these organizations and their leadership.

In summary, establishing and perfecting the system of socialized services is an effective measure for meeting the objective needs of agricultural production and rural economic development. We must really pay attention to this important task in rural work, and we must work hard.

**Strengthen leadership, give energetic support, and actively promote the healthy development of rural socialized services.**

First, the development of the system of rural socialized services must advance gradually and in due order; it must be based on local conditions and have diverse forms. It should gradually advance not only with the rise in productivity, but also with the increase in state and collective economic strengths, as well as with improvements in service organizations' level of operations and management. In the gradual development, we should also take into account factors like how well peasants understand socialized services, how much they need socialized services, and how well they can afford such services.

Construction of the socialized services system is a comprehensive and multi-functional concept. It should be in accordance with the needs of economic development and the progress of science and technology. In general, the system of socialized services should expand from handling a single service to handling multiple services; from offering service mainly during production to also offering multi-functional, comprehensive services in the

pre- and post-production phases; and from offering services primarily for agricultural production to offering broad services for overall rural economic activities.

When constructing a system of socialized services, each locality should develop service areas and expand services based on their own methods. The system should be in accordance with the developmental level of their productivity, with the special characteristics of their agricultural production, and with the willingness of the broad numbers of peasants. They should avoid any formalism or any headlong rush. They should use different categories of guidance, and adopt different forms; they cannot have a single, unified requirement.

Second, we should strengthen organizational leadership over building the system of rural socialized services. In the early stage, the system mainly provides technical services to agricultural production. The scope and need of services in agriculture will expand along with the development of commodity production, and more departments will get involved. At present, in addition to the agricultural departments offering scientific and technological services, other departments—such as commerce, supply and marketing, foreign trade, and finance—also provide some services. As long as these services supplement and complement one another, greater social and economic results will be created.

Third, agricultural departments should make strengthening the development of socialized services and handling all service work its major task. Under the leadership of the local government, agricultural departments should of their own accord accept and closely implement specific and practical work to develop and improve a healthy service system, and conduct comprehensive, systematic services.

At present, many problems still exist with building grassroots rural service organizations, because they are not very adaptable to the needs of agricultural production and rural economic development. Notable problems include unhealthy institutions, poorly defined work, personnel instability, uncoordinated policies, and poor working conditions. In order to solve these problems, a lot of work has been done by agricultural departments, with tremendous support from leaders of the State Council, personnel departments, and other departments concerned. Premier Li Peng and other leaders of the State Council pay close attention to the difficulties and issues of developing a system of agricultural technological services. They also give us instructions on how to coordinate with departments concerned to properly settle all kinds of practical problems.

This year we will work together with departments concerned to try to solve problems related to grassroots agricultural service organizations, such as determining the work nature, size, number of staff, the budget, and other relevant policy issues. Some provinces, municipalities, counties, and units below the county level have basically resolved some of these problems. We hope that

governments at all levels and departments concerned summarize their experiences, exchange information, energetically coordinate with one another, and continue giving more support in this work.

Fourth, we should strive to increase inputs using multiple channels and further develop the system of socialized services in the countryside. Developing such a system is also an important component in developing agricultural productivity, thus it also needs inputs. We must try to get support from all sources and increase inputs for developing the socialized services system; we must regard this work as basic infrastructure work.

Fifth, socialized services are a kind of social and economic behavior. They should gradually form their own self-developing mechanisms. Socialized services, especially technological services, should generally be handled using the method of "integrating technology and materials." This is not only a requirement for increasing service quality and service results, as well as enhancing service strength, but it is also a necessary condition that gives the socialized service system the ability and vitality for self-development.

In general, there should be compensation for socialized services. Comprehensive services that receive no compensation can hardly have good effects, and they have difficulty surviving. Services should offer guaranteed quality and quantity, and have reasonable charges. Within collective economic organizations, services related to production and business management should follow the principles of "cost-benefit management" and of charging according to the quantity and quality of service.

Socialized service organizations are not social welfare agencies. Generally they must be economic entities. They should collect service charges, follow the road of self-accumulation and self-development, and gradually form effective mechanisms.

Sixth, in developing the socialized service system, we must adhere to the policy of integrating multi-economic elements and multi-service forms, involving the state, collective, and private sectors. In the long run, the socialized service system will rely on the collective economy as its major base. However, expanding collective economic strength relies on intensifying collective services and on developing new resources and new production areas. It also requires good management and good utilization of collective funds. No organization, regardless of what kind of economic organization—collective or other—it is, is allowed to develop socialized services by increasing the burdens on the peasant, damaging peasants' interests, or engaging in "equalitarianism and the indiscriminate transfer of resources."

## **Tax Bureau Implements Preferential Policies**

### **Tax Policy for Farm Materials**

91CE0506A Beijing NONGMIN RIBAO in Chinese  
6 Mar 91 p 2

[Article by Ma Qin (7456 3830): "The State Will Continue to Reduce or Remit Taxes on Some Agricultural Means of Production"]

[Text] The State Tax Bureau decided recently to continue to reduce or remit taxes on some agricultural means of production in 1991.

1. Ammonium bicarbonate, ordinary superphosphate, and calcium magnesium phosphate produced and marketed by chemical fertilizer enterprises will continue to be exempt from product tax.
2. If the above-mentioned enterprises switch to producing and marketing urea, phosphamidon, and ammonium sulfate phosphate, they will be exempt from paying product tax on these items.
3. Thirteen farm chemicals produced and marketed by farm chemical manufacturing enterprises, including trichlorfon, dichlorvos, dimethoate, parathion, phoxim, acephatemet, acetyl methylamine, IBP, shachongshuang, fenitrothion, malathion, aluminum phosphide, and nitrofen, will continue to be exempt from product tax. Dingcaoan and exidized dimethoate will be exempt from product tax.
4. Agricultural plastic sheeting produced and marketed by agricultural plastic sheeting enterprises will continue to be exempt from value-added tax.
5. Value-added tax on small farm implements will be reduced 30 percent.

### **Tax Policy for Food, Feed Enterprises**

91CE0506B Beijing NONGMIN RIBAO in Chinese  
22 Mar 91 p 2

[Text] The State Tax Bureau announced at the beginning of the year that the preferential policy on income tax for enterprises engaged in nonstaple food production and feed processing (including town and township collective enterprises) will remain in effect within limits set forth in the following provisions until the end of 1995.

1. Income tax may be reduced by half for enterprises specializing in the production of soy sauce, vinegar, bean products, salted and cured products, sauces and pastes, pickles, sweets, baby food, pastries, preserved fruit, fruit juice, condiments, and enterprises engaged in feed processing.
2. Newly established feed processing enterprises will be exempt from income tax for three years.
3. Some newly established food enterprises will be exempt from income tax for one year. At the end of this



tax-exempt period, if they have difficulty paying taxes, they may be granted further tax exemption or reduction for a certain period to be determined according to the circumstances by the tax authorities.

4. To encourage multipurpose use of food resources, food enterprises, which have developed pollution control projects and launched new multipurpose-use projects with their own funds, will be exempt from income tax on profits derived from these projects for five years, and all the money saved will be retained by the enterprises for further development of multipurpose use and pollution control.

5. Enterprises or shops specializing in the production of baby and infant foods, and meals and convenience foods supplied directly to university, middle-school, and primary-school students, provided the items are not sold in the market, but are produced mainly for the benefit of society and sold at internal-supply prices with a very small profit margin, may be exempt from income tax.

6. To encourage the development of famous and special traditional food products, income tax may be reduced by half for enterprises newly restored to produce such goods.

Moreover, the State Tax Bureau also announced its decisions about the value-added tax on some light industrial products. The following products will continue to be exempt from value-added tax before the end of 1992: wheat flour, finished grain, edible vegetable oil, feed, and bran and oil cakes from oil mills; ginned cotton, cotton velvet, and wadding cotton; pigskin, commercial residences, briquet, honeycomb briquet, and kindling charcoal; and paper currencies printed for the People's Bank of China and state bonds withdrawal notes. In 1991, the tax rates will be reduced to 14 percent for grape jam, household glassware, and glass instruments; 18 percent for ordinary cellophane; 12 percent for glass fiber raw materials; and 23 percent for quartz glass. The taxes on canned goods and household pottery and chinaware, including jars, bowls, pots, and vats (not including similar items in complete dinner, tea, and coffee sets) will be reduced 50 percent.

### **Xinjiang Sugar Output Up, Sales Down**

91CE0497A Beijing JINGJI CANKAO BAO in Chinese  
25 Mar 91 p 2

[Article by Peng Hong (1756 4767) and He Jianming (0149 0494 7686): "Xinjiang Suffers From A Serious Overstock of Sugar—There Is No Market Inside or Outside the Region"]

[Text] Xinjiang Uygur Autonomous Region's sugar overstock situation is serious. It is estimated that the total amount of overstocked sugar in industrial and commercial departments will reach 100,000 to 150,000 tons in the first half of 1991.

According to departments concerned in the autonomous region, in addition to satisfying the domestic market, Xinjiang has 170,000 tons of sugar available for export. Of which, 80,000 tons are commodity sugar required by the state plan. But as of today only some 10,000 tons of planned sugar has been exported and the remaining 160,000 tons of sugar, planned and above-plan, have not yet found a market.

As for storage capacity, storage facilities of commercial departments and production enterprises can only accommodate 60,000 tons. The rest can be stacked only in the storerooms of factory sites or outdoors. Wind, rain, sun, and mice have damaged sugar stacked outdoors.

There are numerous reasons for the large overstock of sugar in Xinjiang. The departments concerned believe they are:

Excessive sugar imports have a great impact on the domestic sugar industry and sales of Xinjiang's sugar. In the past two years, output of the domestic sugar industry developed rapidly, but the domestic market was sluggish. In addition, the sugar price was raised by a fairly large margin last year, and supply exceed demand in the domestic sugar market. In view of this situation, sugar plants in all localities and enterprises which do not deal mainly in sugar vied with each other in selling above-plan sugar at low prices. As a result, sugar prices were reversed, above-plan sugar stole the market from planned sugar, and diversified channels overrode the main channel. Xinjiang is the production area most seriously affected by the market.

Xinjiang's sugar industry has developed rapidly. Since 1988 Xinjiang has invested 500 million yuan in sugar beet production, and constructing new sugar refineries and expanding and transforming old refineries. In addition, Xinjiang emphasized the planting of sugar crops and implemented preferential policies; sugar output increased substantially. According to statistics, during the 1990-91 pressing period, Xinjiang's sugar output will reach 240,000 tons, an increase of over 100 percent.

Long distance transport and great price disparity have made Xinjiang's sugar less competitive. Due to the long distance of transfer, the shipping charge of Xinjiang's sugar is about 65 yuan higher than that of other production areas. Moreover, the current transfer price of southern sugar is 90 yuan lower per ton than that of northern sugar, and sales are concentrated in central China, substantially reducing Xinjiang's ability to compete.

The autonomous region has adopted a series of measures concerning the serious overstocking of sugar and lowered the export price of sugar. However this measure has produced little result since its adoption. Commercial departments are doing their best to promote sales.

## Research Head Discusses Planning, Market Relations

HK0805060191 Beijing NONGMIN RIBAO in Chinese  
3 Apr 91 p 3

["Newsletter" by staff reporter Yu Xiangdong (0151 0686 2639): "Planning and Market Are 'Mutually Inclusive'—Interviewing Chen Jiyuan, Director of Institute of Rural Development Under Chinese Academy of Social Sciences"]

[Text] Reporter: Relations between planning and market are not only an important issue in our economic work and theoretical studies, but also a knotty problem of long standing. After so many years of practice and disputes, how should we comprehend this issue today?

Chen Jiyuan: Since the birth of the socialist economy, this issue has always had a strong appeal to economic theoretical workers. The Soviet Union began to discuss the issue of planning-market relations since the 1920's, and China also started to pay attention to this issue long ago. In 1959, a national seminar was held in Shanghai on the commodity economy and the theory on the rule of value, against the historical background of the People's Commune and Great Leap Forward campaigns, during which "egalitarianism and indiscriminate transfer of resources" were advocated and a communist wind was blowing hard. The seminar was mainly aimed at going further into and resolving such issues as whether or not the socialist economy is incompatible with commodity production and circulation; whether or not commodity production should be promoted and the rule of value adopted under the socialist system; and whether or not production means are all commodities. Discussions were focused on the issue of planning-market relations. At that time, to counter "leftist" ideas and practices which negated the commodity economy and the rule of value, Comrade Mao Zedong gave all participants great encouragement by saying "the rule of value is a great school." However, in the practice of the following 30 years with the exception of a very short period of the three-year national economic readjustment, the issue of promoting commodity production and adopting the rule of value was never resolved, and planning and market were placed on a mutually repellent and antagonistic position during a considerable period of time.

In 1979, another national theoretical seminar was held in Wuxi, Jiangsu, on the issue of the rule of value, under the historical conditions wherein the Third Plenary Session of the 11th CPC Central Committee had established the principle of reform and opening up, calling for vigorous efforts to emancipate the mind, and study new situations, things, and problems. The issue concerning relations between planning and market under the socialist condition once again became the focus of discussions. At this seminar, except for a small number of comrades who still had doubts about the promotion of commodity economy and adoption of the rule of value,

the majority of participating theoretical workers abandoned and criticized concepts which set planning against market.

Reporter: In what ways will we comprehend relations between planning and market? Are they mutually exclusive relations in the type of a "taiji diagram [tai ji tu 1132 2817 0956]" whereby one overwhelms the other; relations pieced together mechanically and monolithically; or mutually infiltrative relations combined in an organic way?

Chen: Since the CPC Congress, our party has drawn a scientific inference, through pooling collective wisdom and practical experience, that a planned commodity economy on the basis of the public ownership is dominant at China's present stage. This serves as a scientific summary of long-term disputes on the issue of planning-market relations. The socialist economy is a unity of the planned and commodity economies, in which the rules of planned development and value jointly play a regulatory role. Planned regulation means that the society can conscientiously arrange social production in proportion; while market regulation refers to the realization of a proportionate development in social production through a market structure. Planned and market regulations are mutually infiltrative and inclusive, that is, planned regulation should be carried out in accordance with market changes, while market regulation cannot do without the guidance and restrictions of planning. Planned and commodity regulations can be integrated in three forms, namely, mandatory plans, guiding plans, and market regulation. All the three are based on the economic rule, and jointly act on the economic life. The successful experience gained in rural reform over the past 10 years is exactly the fruit of our persistence in taking the road of a planned commodity economy, and in integrating planning with market.

Take the case of Shouguang County, Shandong Province. As a major county of traditional agriculture, the county is an important production base of vegetables, fruits, grain, and cotton. With the economic development in recent years, two new social and economic contradictions have cropped up: One is the contradiction between production and circulation. As a result of increases in output and roughness in circulation, peasants have suffered losses incurred by difficulties in selling agricultural products. The other is contradictions between the decentralized management by rural households and the large-scale socialized market. Individual production has a character of arbitrariness and blindness, for peasants are ill-informed, isolated, and weak in strength; and their risk-resistant capacity is very poor. As a result, the development of a rural commodity economy has always been unstable. Under this new situation, Shouguang County, through organizing rural markets, succeeded in developing the commodity economy, and properly handled planning-market relations, thus bringing about a comprehensive growth in the rural economy. Reporter: In terms of theory and practice, some people are apt to separate planning from market, or set the former against

the latter, intentionally and unintentionally. This can be exemplified by the concept of relying mainly on planning while making market subsidiary; that of subordinating market to planning; and the concept that planning is for the macroeconomy while market, the microeconomy. All these concepts demand clarification.

Chen: Those who hold such concepts are, in a sense, still confining their thinking to the pattern of the single-product planned economy in the past. They have failed to earnestly comprehend the relations between planning and market under a commodity economy. In fact, planning and market cannot be differentiated as primary and secondary, and it is also incorrect to tell the principal from the subordinate between the two. If we fail to accord ourselves with market demands and information while working out plans, we can neither do a good job in organizing the market, nor work out any effective plans.

The concept that "planning is for the macroeconomy while market, the microeconomy" is also untenable. Generally speaking, the macrolevels of the economy are subjected to more influences and restrictions of planning, while the microlevels are under greater regulation and impact of market. However, in the final analysis, the macro and microlevels of the economy should embody both demands of market and planning. No matter whether it is planning or market, their influence and functions are ubiquitous. Marxist political economics tells us that as a basic rule of the commodity economy, the rule of value gives play to its roles not only on the micro but also on the macrolevels. This serves as a fundamental basis for the perfectly harmonious integration between planning and market within the scope of the entire national economy.

Reporter: Speaking of planning of the economy, some rural grass-roots cadres and peasants will immediately associate it with administrative orders, and then further connect in their minds arbitrary and impracticable orders, thus giving rise to a confused understanding.

Chen: Planning is indispensable, and administrative orders should also exist. What is more, planning, especially mandatory plans, is often achieved through administrative means. However, a confused idea needs to be clarified here: Administrative orders are based exactly on the economic rule, which do not require people to issue blind orders disregarding the economic rule. Therefore, administrative orders do not mean that one can do whatever he likes, and give arbitrary and impracticable orders according to the will of superiors. Some rural grass-roots leaders are prone to have a confused understanding on this issue, assuming that implementation of administrative orders simply means to act according to the will of higher-level leaders without following the guidance of market and economic rules. As a result, economic levers such as finance and money failed to promote the economy by making effective administrative interference.

Unlike the capitalist one, the socialist commodity economy does not undergo a spontaneous development, but follow a planned course on the whole. This innate character has decided that the party and government should undertake the responsibility of organizing the market and guiding the development of the commodity economy, and give play to the role of planned guidance as well as macroeconomic control and regulation, through vigorous administrative management. In the past, this issue was often comprehended by people from a negative sense, and it seemed that planned guidance and macroeconomic control and regulation only served the purpose of preventing and rectifying confusion and chaos. Undoubtedly, leaders have the responsibility to implement planning and management over the commodity economy; however, they should set their eyes on enlivening, rather than exercising too rigid a control over, the economy. This is a basic starting point for us to do a good job of economic work at the present stage.

A good leader should have a profound understanding and perfect mastery of the operating rule of the commodity economy and, on this basis, work out scientific plans and policy decisions in light of local realities. Attention should be paid to both social and market demands, and the present state of natural resources. It is imperative to keep abreast of social and market needs as well as the present state of natural resources, before working out scientific policy decisions and plans. Top priority should be given to the former, while the latter is placed on a secondary position. By so doing, we can manage to refrain not only from working out policy decisions and plans on the basis of subjective assumptions, but also from giving arbitrary and impracticable orders as a result of placing planning above market.

## PUBLICATIONS

### Five Volumes of Enterprise Dictionary Published

OW2404112491 Beijing XINHUA in English  
0956 GMT 24 Apr 91

[Text] Beijing, April 24 (XINHUA)—The first five volumes of the 46-volume Chinese enterprise dictionary were published recently, according to today's OVERSEAS EDITION of the PEOPLE'S DAILY.

The dictionary volumes are separated according to provinces, autonomous regions, municipalities and cities which are under state unified economic planning.

The published volumes present information concerning Hebei, Jiangxi, Shandong and Sichuan Provinces and Wuhan City.

Each volume contains information concerning the major enterprises in various sectors including industry, agriculture, commerce, transportation, posts and telecommunications and construction in the area represented.

The complete dictionary, which will contain 132 million Chinese characters, is scheduled for completion in 1994.

**'Secret Report' Forecasts Increased Arms Exports**

91CM0278A Hong Kong CHENG MING

[CONTENDING] in Chinese No 2, 1 Feb 91 p 18

[Article by special correspondent Tso Ni (1563 6627): "New Chinese Communist Target—Great Arms Exporting Nation; Secret Military Commission Report Targets Analysis, Research on Arms Upgrading by China's Main Neighbors and the Region"]

**[Text] Secret Report of High-Level Military Research Group**

On New Year's Eve the Central Military Commission approved plans for 1991 arms exports.

The Chinese Communists carefully analyzed the international and Asian-Pacific region situation after the U.S.-Soviet reconciliation and decided to export arms actively as a "long-range strategic target," especially to neighboring countries and regions. They believe that exporting arms not only has major economic significance, but also has major political and strategic significance. The Central Military Commission stated that they should seize the opportune moment and quickly open avenues for arms exports. A high-level military research group provided the Central Military Commission with a secret report that targeted analysis and research on the arms-upgrading situation among China's primary neighbors and regions, especially India, Indonesia, Thailand, Malaysia, Pakistan, and Laos. The secret military report said that China's conventional tactical weapons are comparable to those of the Western powers qualitatively and quantitatively. Exports of conventional weapons may open even greater outlets in the international market.

**Yang Shangkun Boldly Directs Arms Exporting**

On New Year's Eve, at the same time as the Seventh Plenary Session of the 13th CPC Central Committee, the Central Military Commission also convened a special meeting to study arms exporting. Yang Shangkun spoke at the meeting. The essence was that, in the past 10 years, the Soviet Union and the Western countries, especially the United States, England, and France, have exported a large amount of weapons. We pale by comparison. In the Eighth Five-year Plan we should concentrate our manpower, materiel, and finances on research and development of new weapons and equipment partly to equip ourselves, but also to export. "The United States, England, and the Soviet Union rely on selling arms to earn money, if they can do it, why can't we?" Yang said. "Someone has calculated that one heavy tank can be exchanged for 286 tons of beef." Yang also said that we will not engage in this secretly but from now on should engage in arms production and export boldly and with assurance. The Central Committee has already approved it, so we should set up a specialized group to do this.

**Plan To Become Major Arms Exporter in Three to Five Years**

The Military Commission demands that China become a major arms exporter in the next three to five years. While doing this, we should more actively upgrade our own military's equipment. The Central Committee believes that there will not be a large-scale war in the Asian-Pacific region in the next three to five years so we should seize this opportunity to engage in military research and development. When Yang Shangkun discussed this issue at an important meeting of the Military Commission convened on New Year's Eve, he said, "A few days ago I participated in a study group discussion and some comrades asked me, 'since the Sino-Soviet border region has been disarmed and the Sino-Vietnamese and Sino-India borders were also at peace, how can weapons education for our Army be improved in the future?' I told them that it was fine that the Sino-Soviet border was disarmed and that the Sino-Vietnamese border was at peace, but we definitely could not waver and weaken military weapons education and military training. The desire of imperialism and the Western powers for our demise is still alive and as long as we uphold socialism they will constantly attempt to overturn and destroy us. We will always face the problem of anticommunist encirclement."

Yang Shangkun stressed the importance of military research and development. He said, "Our Army has several decades of abundant experience in long-term land warfare, but long-distance war is a new topic." "This is a main direction of attack." "For the next few years our major efforts should be directed towards military research and development." "We should have comprehensive overall plans, including submarines, warships, airborne, landing operations, and long-range bombing and rear unit reinforcement..." Yang also said, "All of this may not be needed but if we don't study it we can't do it and if we are not prepared we can't do it. If we don't study it, they will. If we don't prepare, they will. How will that do?"

It was revealed that expenses for military scientific research have increased substantially for the Eighth Five-year Plan, including research expenses for the Navy and Air Force, much beyond those of the past several five-year plans.

**Perceived Deficiencies in Military Equipment Viewed**

91CM0358A Hong Kong CHENG MING

[CONTENDING] in Chinese No 3, 1 Mar 91 pp 63-66

[Article by Chung K'uei (6988 7447): "Secret Worries About Taiwan's Military Equipment"]

[Text] *Nowadays Taiwan is forebearing and conciliatory toward the mainland, submits meekly to maltreatment, and makes concessions because its weapons are not as good as those of its adversary. However, money cannot buy security; the Chinese Communists are still unwilling to renounce force to take Taiwan.*

On 14 January, Hao Po-ts'un issued orders to the three armed forces to intensify their alertness lest the Chinese Communists take advantage of the tense situation in the Persian Gulf to launch a surprise attack against Taiwan. On the 15th, President Li Teng-hui met with Chief of Staff Ch'en Shen-ling [7115 8590 7881], telling him that the use of emergency powers, if necessary, should not be ruled out. Before these events, the three military forces on the Chinmen and Matsu front canceled military leave, recalling officers and men to camp to make full war preparations. But is Taiwan a match for the Chinese Communists? What complications are there in Taiwan's military procurement and self-manufacture of weapons?

#### **Hao Po-ts'un Orders Weapons From France**

On 9 January, French Minister of Industry Fauroux called on Premier Hao Po-ts'un in Taipei. The Executive Yuan news bureau usually publishes news about such meetings to brag about the victory of flexible diplomacy. In this instance, however, contrary to normal practice, the news bureau did not publish any news. Reportedly, only Minister of Economic Affairs Hsiao Wan-ch'ang [5618 5502 7022] and a single interpreter were at the meeting. All other extraneous personnel were removed from the scene. Later on, Taipei announced that the Hao-Fauroux talks concerned Taiwan's plans to purchase weapons from France.

Hao Po-ts'un has had dealings with the French military for some time. During a visit to Europe in May 1989, he toured France's DCN Shipyard. After returning to Taiwan in June, he immediately directed the Navy Shipbuilding Plan Administrative Office to begin an evaluation of the feasibility of purchasing warships from France. It was originally intended to sign a formal agreement in January 1990 for the purchase from France of six 3,200-ton Lafayette patrol ships and nine frigates. In the end, however, the deal fizzled in the face of the Chinese Communist threat of a "bilateral downgrading of relations."

During the past year, the international situation has changed very greatly. With the peaceful unification of Germany, no longer are the Warsaw Pact and NATO at swords' points. The confrontation between East and West has eased, and the USSR has relaxed its troop deployments in Europe. Consequently, France no longer has to sedulously cultivate Communist China as a check on the USSR. This has reduced obstacles to sales to the Taiwan armed forces. Reportedly, the order that Hao Po-ts'un placed with France on this occasion included weaponry of greater precision than the Lafayette patrol ships.

During the 1950's, Taiwan constantly boasted that it had sea and air superiority, and during the battle of Chinmen in 1958, it actually did win a brilliant 20 to 2 naval victory. An engineer in Shanghai's Jiangnan Shipyard recalls that at that time the shipyard's docks were filled with bullet-riddled gunboats towed back from the Fujian front. During the past more than 30 years, however, the

Chinese Communists have worked hard to catch up in naval ship construction, and today they far surpass Taiwan in both number of ships and performance. By contrast, Taiwan has cherished the outmoded and preserved the outworn. Now it finds itself in an inferior position from which it is virtually impossible to mount a defense.

The main force of Taiwan's Navy today consists of 24 Yang-class destroyers and 10 patrol ships. These ships were all launched and commissioned for service between 1943 and 1945. Following World War II, they were transferred to the Republic of China [Taiwan] Navy in accordance with the United States military assistance plan. These overage ships are unable to meet the needs of modern naval warfare in terms of their armament, speed, and communications equipment. As an example, for a Yang-class destroyer to put to sea for a week, it would have to go to the dockyard for several months of major overhaul in order to increase its horsepower to cruise at 25 knots. For more than 30 years, the United States consistently refused to help Taiwan update its ships in order to prevent the Kuomintang from counter-attacking the mainland. As a result, in sovereignty disputes over the Nansha Islands and Tiaoyut'ai, Taiwan can only submit to humiliation. Taiwan fishermen are bullied and humiliated on the open sea by the Navies of the Philippines, Japan, the USSR, Vietnam, and Indonesia, and the Nationalist government always has to submit meekly to humiliation. Even when a tiny island country like Belau shoots Taiwan fishermen, it dare not do anything about it.

#### **United States Refuses To Sell Advanced Weapons to Taiwan**

By way of upgrading its fighting strength, the Taiwan Navy began in the late 1970's to equip its destroyers and patrol vessels with some missile facilities. The four Fletcher-class destroyers, for example, were equipped with twin Sea Chaparral missile launchers to replace the original 76-mm cannons. The ships carry 60 Sea Chaparral missiles with a range of three kilometers. They are used for air defense, and can also attack naval targets. Another three Sumner-class destroyers are equipped with Hsiung-feng missiles, which are an improved version of the Israeli-made Gabriel 2 missile. The Hua-yang is equipped with one triple missile launcher, and the Heng-yang and the Yu-yang are equipped with two triple Hsiung-feng missile launchers. The Hsiung-feng missile has a range of 12.5 nautical miles and has been used in combat. By way of improving antisubmarine capabilities, destroyers have been equipped with one or two 40-mm air-defense gun turrets. The Liao-yang, Chien-yang, and Lai-yang have been equipped with eight-tube antisubmarine rocket launchers, antisubmarine torpedo launchers, and sonar equipment.

Since the United States would not sell it warships, Taiwan opened new channels for military sales. In 1976, the Nationalist government bought one Lung-chiang-class missile fast-attack craft (with a 218-ton



displacement and a speed of 40 knots) from South Korea, and contracted for technical changes. In 1979, the China Boat Company manufactured a copy. In 1985, Taiwan bought two Jui-chiang class fast gunboats from Singapore, eight more of which the China Boat Company copied.

In addition, Taiwan's new ships and vessels also include 50 47-ton Seagull-class fast gunboats, which are Chung-shan Academy of Science-improved models of the Israeli Dvora gunboat, and Hai-lung and Hai-hu submarines purchased from the Netherlands. The Navy also has two Guppy II-type submarines used for training purposes, the Hai-shih and the Hai-pao, both of which are old ships from the end of World War II. Furthermore, when these two ships were transferred to the Republic of China, their torpedo tubes were plugged. Although they have been opened and refitted with torpedoes, these submarines cannot be used much because of their old age.

After the Chinese Communists established diplomatic relations with the United States in 1979, because of provisions of the Shanghai Communique about gradual reduction of sales of military equipment to the Taiwan armed forces, the United States has been willing to sell Taiwan only spare parts for maintenance. It has refused to sell it advanced combat aircraft and warships. Unable to buy advanced destroyers, the Taiwan Navy backed off and tried a second time, this time trying to buy light defensive patrol vessels from the United States—Perry [phonetic]-class guided missile patrol vessels. Later on, it made arrangements for the purchase of Wei-shan class patrol vessels from South Korea, and it made arrangements to buy from France special Lafitte patrol vessels, all of which are this type of coastal defense vessel.

Patrol vessels usually have a displacement of no more than 3,800 tons, a speed of between 24 and 32 knots, and a range of between 2,200 and 3,500 nautical miles. Most of the world's new patrol vessels are now equipped with ballistic missiles as well as one antisubmarine helicopter. Most of the U.S. Navy's 50 Perry-class patrol vessels have been given to the Coast Guard and the Navy Reserve.

Under pressure from Communist China, the United States has consistently refused to sell Perry-class patrol vessels to Taiwan. After several years discussion, it has reluctantly agreed to assist the China Boat Company in the manufacture of eight Perry-class vessels. On 10 January 1990, Hao Po-ts'un, who was minister of national defense at that time, officiated at a ceremony for the beginning of their construction. Unhappily, the finished product consisted only of a ship hull. It had no weapons, radar, or communications equipment.

On 21 December, newly appointed Minister of National Defense Ch'en Lu-an [7115 1459 12344] presided at the first ship keel-laying ceremony. Plans call for completion of the turbine and propeller installation in April, and it is to be fitted out for launching and trial runs on the ceremonies commemorating the 80th anniversary of the

founding of the Republic of China. On the same day, Ch'en Lu-an presided at a ceremony marking the beginning of work on the second Perry vessel.

For the construction of these eight missile patrol vessels, the China Boat Company's Kao-hsiung yard mobilized a total of 2,000 personnel to study military shipbuilding skills. It also hired technical personnel from the U.S. BMW Company [as published] as advisers. These eight 4,000 ton class warships have a construction cost of \$1.45 billion, work beginning on a ship every 11 months, with all of them to be completed by 1999.

#### Repeatedly Fleeced by Weapons-Producing Countries

Such a speed of construction clearly cannot keep up with national defense needs; therefore, the Ministry of National Defense established the Navy Shipbuilding Management Office back in June 1988 with responsibility for designing the second generation of warships, with a defense fund of NT\$300 billion [new Taiwan dollars] at its disposal. It purchased Wei-shan class patrol vessels from South Korea to remedy its warship shortage, but under pressure from the United States, Korea refused on-board missile and antisubmarine equipment. The asking price was also extremely high. Taiwan then turned to France to make purchase arrangements. At first, the French Government agreed to sell other weapons and electronic system across the board in addition to the Lafitte ships. Unfortunately, the news leaked out too early. As a result, the plan fell through. Initially, the Nationalist government hoped that such a tremendous purchase of arms would cause setbacks to diplomatic relations between Communist China and France; then, it would mount a money offensive in Western Europe in the exercise of flexible diplomacy. The current visit to Taiwan of Minister Fauroux shows that some hope remains for this tactic.

From a purely military point of view, Taiwan's purchase of naval vessels from the Netherlands and France is an error in principle. This is because, as of now, the Nationalist Army's weapons systems, logistical supply, personnel training system, and its various drill manuals and communications electronics systems are U.S.-style systems. If a change is made to warships of a system other than the U.S. one, this will require starting all over again with logistics, maintenance, and personnel training systems. Such a system change is no small matter. For example, naval vessel supply and maintenance handbooks number more than 1,000. If a change is made to French vessels, it will be necessary to make a change in the study of French language handbooks. Navy officers and men will have to readapt completely to different operating procedures, structural positions, and supply regulations. If Taiwan is successful in buying naval ships from numerous countries, the naval officers academy, Navy Headquarters, the training centers, and the joint logistics headquarters will all have to set up French units. Such a UN-style Navy creates extremely large difficulties in command. Naturally, the officers who draw up plans for "no purchases of naval vessels from a single country"

have their own share of embarrassing difficulties. The harsh reality is that they are brought to this unwise decision because they are unable to buy weapons even though the money to buy them is available.

Taiwan's diplomatic weakness destines it to a fleeing by arms-producing countries. An example occurred a year ago when, after marathon discussions, the Navy ordered U.S.-made S-70 antisubmarine helicopters. The American firm that made these helicopters suddenly raised the price just before Christmas, and tried to force Taiwan to agree at once. The firm was certain that Taiwan had no choice but to buy. However, the minister of national defense at that time, Hao Po-ts'un, would not put up with this kind of thing. Not only did he not agree, but he drove the price below the originally agreed upon price, and he threatened not to hesitate to abandon the entire deal. Thanks to Hao Po-ts'un's firm attitude, the American firm obediently lowered the price. Hao Po-ts'un's ire saved the nation tens of millions of dollars of public funds.

Nevertheless, Hao Po-ts'un was also taken to the cleaners by foreigners in one case. In 1989, Taiwan ordered from the United States a number of M48H tanks of various makes using a combination of an M60 tank chassis, an M48 turret, and an M1 tank fire-control system. The U.S. General Dynamics Corporation asked payment of \$4 million per tank and, with a single stroke of the pen, Commander Hao ordered 450 of them for a total of \$1.8 billion. At the time of delivery, the U.S. Aberdeen Tank Research Institute found several hundred deficiencies large and small, the most preposterous of which was that the tanks were not equipped with anti-chemical warfare equipment; thus, when engaging in modern warfare, the Nationalist Army's tank troops would have to wear gas masks. Not long after this, the General Dynamics Corporation sold Taiwan some first-generation M1 tanks that the U.S. Army had gotten rid of because of troop reductions. The price asked was \$250,000 per tank. Once again Hao Po-ts'un ordered 150 without hesitation. Should the Chinese Communists attack Taiwan, these different model tanks will certainly create very great difficulties for command and maintenance.

#### Hidden Dangers in Inadequate Vessel Maintenance

The Democratic Progressive Party [DPP] has repeatedly slashed national defense expenditures in the Legislative Yuan in recent years. On 30 December 1989, legislator Lin Yu-hsiang [2651 6877 4382] proposed a reduction of 300,000 in the size of the armed forces. Hao Po-ts'un had the following to say in this regard: "Lots of people propose cutting the size of the Army in order to save money. Actually, the equipment for the most expensive army division costs only NT\$1.19 billion a year, while more than NT\$800 million is needed to buy just one F-16 fighter plane. By cutting a division, you can buy one and a half fighter planes, but can one and a half fighter planes take the place of one infantry division? Cutting 10 divisions saves NT\$12 billion, which is an extremely small amount of the NT\$240 billion national defense

budget. Cutting 300,000 men amounts to disbanding the Army. Take just the 30,000 Army troops guarding the coast. If 30,000 policemen were to take their place, the cost would be about eight to 10 times greater."

In the above reply, Hao Po-ts'un revealed quite a few military secrets, but it also demonstrates why he insists on proportional reductions in the three armed forces. Since July 1990, the Army has cut 5,000 men, the Navy 2,300 men (including 500 marines), and the Air Force 2,700 men.

Navy and Air Force generals feel that the Army cut of 5,000 men is just a drop in the bucket, but that the Navy and Air Force tables of organization are already very lean. Should personnel be cut and the period of service reduced (from three to two years), the entire mobile system would be hurt. In recent years, the value outlook of Taiwan society has changed dramatically. (That the film about a prettified Chinese traitor, *Rolling Red Dust*, won the national film award, the award being given on the 53d anniversary of the rape of Nanjing, and no high-ranking official acted to put a halt to it provides testimony to this.) The "good men do not become soldiers" concept is in vogue; consequently, military schools are increasingly unable to enroll sufficient cadets, and cadet quality has declined markedly. Many high-ranking military officers sigh and say, "Young people are not the way they used to be."

Because of their lack of technical personnel, the armed forces used to hire large numbers of civilian technicians to maintain and repair naval vessels and radar. Since the lifting of martial law when workers regained their right to organize trade unions, labor unrest has ebbed and flowed. When he was chief of the General Staff, fearing that a labor movement might erupt in the weapons, ammunition, servicing, and military uniform factories, Hao Po-ts'un acted in advance to move civilian technical personnel into military positions. He supposed that once civilian workers were hired into military position, should labor unrest occur, military law could be used to deal with it. To his surprise, this ploy resulted in civilian technical workers in the armed forces leaving in droves. In the Navy alone, for example, more than 1,700 people left. When radar broke down, there were no technicians to fix it; and no one was available to maintain boilers regularly. Only one torpedo technician remained for the submarine Ch'uan-long, and only one technician was left for patrol vessels equipped with Dutch radars. Inadequately maintained vessels might experience engine failures or have boilers blow up at any time.

#### Further Weakening of Air Force Combat Capabilities in Recent Years

In the Air Force, a sharp decline has taken place in the number of enrollments in air force officer schools in recent years, the number falling from 1,331 in 1987 to 426 in 1991. Today, fourth-year cadets in Air Force officer schools must take 200 hours of intensive training

in flying; thus, only slightly more than 30 percent graduate. This means that only somewhat more than 100 fighter pilots are trained each year. Furthermore, the poor pay and benefits in the armed forces means that being an Air Force pilot is no longer the dream of young people. This is because no distinction is made between wartime and peacetime Air Force risks. Ninety hours of duty flying per week must be logged in during peacetime, and dangers must be faced every day, yet the pension paid to the family of the deceased in event of an airplane crash and death in the line of duty is not as good as that for a policeman. A lieutenant colonel squadron commander with between 3,000 and 4,000 hours of flying time receives only slightly more than NT\$50,000 per month in pay and allowances, but a pilot for Ch'ang-jung Airlines makes NT\$150,000. Therefore, once these outstandingly skilled pilots reach the time for retirement, they transfer into the civil aviation world. Frequent accidents of F-104's in recent years have further weakened the Air Force's formerly outstanding combat capabilities.

The F-104 is a product of the 1960's that was already over age in 1986. What is more, most of these more than 1000 rickety aircraft have been either cobbled together or are second-hand. They are extremely dangerous to fly at low altitudes. Their stubby wings create congenital stresses and strains. On 24 March 1990 alone, three F-104's in formation training crashed, and none of the three pilots survived. Today, even Indonesia and Malaysia have gotten rid of these "flying coffins," changing to F-18's as their main fighter aircraft. However, Taiwan is still the world's largest F-104 warehouse. Several years ago, it even bought two shipments from Greece and Argentina. These rickety aircraft are still equipped with the Sidewinder missiles used during the 23 August Chinmen artillery warfare era, so how can they be a match for the Chinese Communists' F-8 fighter aircraft?

As for the remaining more than 200 F-5E fighter planes, they frequently have accidents resulting from metal fatigue and breaking of the main girders because of their many years of use. Therefore, the Air Force is pinning all its hopes on the IDF fighter plane that the Aviation Development Center of the Chung-shan Academy of Science designed. Regrettably, on the morning of 29 October 1989, when President Li Teng-hui personally visited Ch'ing-ch'uan-gang Air Force Base in Taichung to preside over a test-flight ceremony for that aircraft, the first prototype plunged off the runway when a tire on the left wheel blew out. Subsequent investigation showed the reason to have been a poor-quality nose wheel support, which caused the right flange of the wheel axle to break from vibration. Numerous test flights produced the conclusion that the airplane's engine lacked sufficient thrust. It was no match for the U.S.-assisted computerized fire control of the Chinese Communist F-8 fighter plane. Consequently, this fighter plane built at a cost of NT\$300 billion had to have its engine redesigned, which meant making changes to the entire fuselage, for

an additional cost of NT\$16 billion. If the engine were not modified, the air-intake nacelle would have to be widened to increase thrust, which might produce two side effects, as follows: faster fuel consumption for a shortening of the time in the air; and shortening of engine life or a midair engine explosion resulting from the engine's inability to withstand the strain.

In early November 1989, Li Teng-hui summoned General Chao Chih-yuan [6389 4249 6678], deputy chief of staff, to inform him in advance that he was to take over as Air Force commander. To Li's surprise, Chao requested retirement to take a position as China Airlines' chairman of the board. Li Teng-hui had to promote Lin Wen-li [2651 2429 4409] to Air Force commander. Chao Chih-yuan refused the appointment as Air Force commander because he opposed acceptance of the IDF fighter plane. He believed the airplane had serious problems for which he did not want to bear responsibility. Reportedly, when the Aviation Development Center at the Chung-shan Academy of Science designed the IDF with the Chinese Communist F-8 in mind, it spent a huge sum of money to buy a large designing computer from General Dynamics, but the Americans controlled the computer's operating rights in order to keep the programming a secret. Consequently, Taiwan was completely at a loss about the design and performance of the IDF.

The design sought to make the IDF's performance better than that of the F-104, and even better than that of the F-16, but the IDF has just gone into quantity production, and it will take at least five years before it will be in general use in the Air Force. Meanwhile, it will be difficult for the existing F-104's and F-5E's to fill the gap. What with no updating of aircraft for a long time, and airplanes becoming increasingly rickety, of course morale cannot be improved.

Supposing that Communist China does not attack Taiwan within five years and the IDF is in service, since fire-control system programming is kept secret, the Taiwan Air Force will be unable to maintain it itself. By way of taking precautions in advance, the military simply established a huge corps of American technicians. It set up a new community at Shui-nan Airfield in Tai-chung, and it hired more than 100 American technicians from the Lai-fu Company, a representative of General Dynamics, to take up residence there for a long period.

#### **The United States Seeks Exorbitant Profits From Others' Peril**

Instances in which the United States seeks to make exorbitant profits from the peril of others are too numerous to mention. One instance was when, in order to improve its antisubmarine warfare capabilities, Taiwan commissioned the U.S. Grumman Corporation to refit two S-2E antisubmarine aircraft to make them S-2T aircraft. The corporation charged \$30 million, but turned right around and contracted the job to another

company for \$6 million. The intermediary for the Grumman Corporation was none other than Anna Chen-nault, who shuttles back and forth between both sides of the Taiwan Strait.

Foreigners' success in working a racket stems time and time again from their awareness that Taiwan's national defense industry is backward. For example, after being eight months overdue, the rapid refueling and ammunition supply ship, Wuyi, whose manufacture the China Boat Company had contracted, was found to have the following fatal flaws: 1) The hull was not balanced; the mast was not straight; and the axis line was 2.5 degrees off center. In order to reduce listing, a certain amount of oil had to be kept in the oil reservoir at all times, thereby providing a five-meter draft. This meant reducing by half the quantity of oil that could be used for refueling of another ship. 2) After the 14-valve diesel engines started up, they were very likely to conk out; and the steering engine lacked sufficient horsepower and was prone to overheating. Were the engine to burn out, the supply ship would drift aimlessly at sea. 3) The 500-foot-long supply ship was fitted with a helicopter pad, but there was no helicopter compartment; thus, vertical provisioning was impossible. 4) The gearing of the engine was not tight, so there was a lot of wear and tear. 5) No runabout dinghy was provided, nor was there a complete telephone network.

After the Navy General Headquarters' supervisor's office found these numerous defects on this ship on which more than NT\$1 billion had been spent, it was returned to the boatyard for four months of major overhaul, and it was not until the beginning of November 1990 that it sailed to the Tso-ying Naval Base.

In order to allay the reproach of outsiders, Navy Headquarters especially invited the news media to view the ship's operation at sea. Actually, all of the reporters were

greenhorns. They gained a superficial understanding after cursory observation and put out copy that was of no use whatsoever.

The backwardness of the equipment of Taiwan's three service arms must be laid at the door of the laggard defense industry as well as poor planning. Trouble has been brewing for a long time, and now old practices die hard. During the 1950's, when Taiwan had the protection of the Sino-U.S. joint defense treaty, both the government and the public indulged themselves under the protective U.S. umbrella. After U.S. abrogation of the joint defense treaty in 1979, the Kuomintang itself sought to develop fighter planes and warships, but "time and tide wait for no man." Today, Taiwan has to tread softly, submit meekly to the mainland, and make concessions to achieve its purposes with the mainland because its weapons are not as good as its adversary's. If money could buy security, and if investment in the mainland could restrain a Chinese Communist attack against Taiwan, that might be regarded as a good plan for a truncated territory. Unfortunately, the Chinese Communists are as yet unwilling to give up an armed attack on Taiwan. The communique of the Taiwan work committee that the Chinese Communists openly published on 12 December 1990 was not strongly worded, but Jiang Zemin announced at a secret meeting that "without the backing of powerful weapons, unity will be an illusion. We must use a combination of soft and hard techniques to deal with Taiwan." This shows that Taiwan's diligent striving for a "good will response" is only a beautiful wish. Judging from the recent commissioning into the naval aviation forces of the Chinese Communist Navy's first ship-based aircraft contingent, that five of the members of the Chinese Communist Central Committee leadership team for Taiwan work are military men, as well as the armed forces' demand for a 1.5-fold increase in military expenditures during the next 10 years, peace in the Taiwan Strait is only relative; it is not absolute.

## EAST REGION

### Shandong Holds Socialist Ideological Education Forum

SK1905043191 Jinan Shandong People's Radio  
Network in Mandarin 2200 GMT 18 May 91

[Text] The provincial forum on carrying out socialist ideological educational work in the city was held in Jining City on 17-18 May. Miao Fenglin, member of the Standing Committee of the provincial party committee and director of the Propaganda Department, presided over the forum and offered suggestions on conducting socialist ideological education in the city on behalf of the provincial party committee.

Miao Fenglin stressed that the urban areas should do a better job in conducting socialist ideological education than the rural areas. It is necessary to understand the importance of conducting socialist ideological education in the city, include it with the struggle between evolution and counter evolution, lay a solid foundation for carrying out the basic work on opposing peaceful evolution in the urban areas, eliminate the breeding grounds of bourgeois liberalization in the city, and understand the urban socialist ideological educational work from the perspective of laying a foundation for fulfilling the Eighth Five-Year Plan and the 10-Year Program. To this end, while carrying out socialist ideological education in the city, we must act in line with the demands of the provincial party committee, conscientiously study this work, increase the number of measures, and carry out the socialist ideological education of cities in a better and more solid manner. The urban areas receiving socialist ideological education should be broader than the rural areas. We should ensure that not less than 95 percent of the urban office cadres, school teachers and students, and enterprise workers and not less than 90 percent of the urban neighborhood residents will be educated.

Miao Fenglin pointed out that, to ensure quality, all localities may extend their time for conducting socialist ideological education and may finish the work prior to national day. They may also carry out the work in batches and make full use of the experiences gained from the long-term experiments so as to comprehensively raise the educational quality.

Miao Fenglin concluded that, after finishing socialist ideological education work in the urban areas, all cities and prefectures should report their results to the provincial party committee. They may declare the completion of their work only after they have been checked and accepted by the investigation group of the provincial party committee.

## NORTH REGION

### Changes in Ideas Urged To Further Advance Reform

91CM0381A Beijing ZHIBU SHENGHUO  
[PARTYBRANCH LIFE] in Chinese No 3, 5 Mar 91  
pp 1, 4

[Article by Ren Xin (0117 2946): "Toward Further Emancipation of the Mind"]

[Text] The "Proposed 10-Year Program for National Economic and Social Development and Eighth Five-Year Plan," adopted at the Seventh Plenary Session of the 13th CPC Central Committee, was based on an accurate analysis of the international and domestic situation as it puts forward the grand objectives of achieving a quadrupling of China's GNP, as compared with 1980, a somewhat higher standard of living for the people, and a substantially large increase in the overall strength of the country. It is undoubtedly possible to achieve these objectives through energetic effort, though it is also an extremely arduous task. It requires pooling the wisdom and efforts of all citizens, their arduous struggle, and trail-blazing advances. Further emancipation of minds is a precondition.

Why are we asking for further emancipation of minds? Because we see that realization of our grand and arduous task is blocked by a number of "tigers lying in ambush," "stumbling blocks," and "snares" in the area of ideological conception, which can restrain all movement and impede any advance; all these obstructions must be removed.

The following are manifestations of such:

1. The idea that planned economy and market regulation are two things which are as incompatible as fire and water. For a long time we have regarded the planned economy as the essential characteristic of the socialist system and as such have continuously strengthened it, while at the same time regarding the market economy as a "patented right" of the capitalist system and, as such, discriminated against it. Although things have changed somewhat since initiation of our reform and opening to the outside world, these misconceptions have not yet been completely eliminated. The truth is that the capitalist system, although predominantly a market economy, also comprises a capitalist planned economy. Likewise, the socialist system, although for a long time predominantly a planned economy, comprises, as we see from the reform in China, in recent years a continuously widening scope of market regulation, which has to a large extent supplemented the deficiencies in the planned economy and by doing so achieved excellent results. Practice has proven that planned economy and market regulation are not two systems that are diametrical opposites, but that they can indeed be combined. There is absolutely no necessity to regard planned economy as by nature "socialist," and market regulation of necessity as altogether of "capitalist" nature. Only by combining



the two will it be possible to bring the advantages of each fully into play and to more effectively promote the development of productive forces.

2. The idea that "fertile water must not be allowed to flow onto the fields of others," as the saying goes, that is, the fear of being exploited by foreigners. That means being hesitant in the courageous development of Sino-foreign joint ventures, hesitant to utilize foreign loans, and even less venturesome in the importation of advanced technologies, advanced management methods, and human talent of all sorts. The commodity economy is essentially an open economy. In the today's world, the more developed a country is, the closer are its country-to-country economic ties and the more intense is the state of intermingling of mutual interests. China is a large country with a large population. It must primarily achieve its reconstruction by its own efforts, but it must also actively develop interchanges with other countries for the mutual supply of whatever the other party lacks, and to supplement its own deficiencies by utilizing the strong points of the other party. These cooperative interchanges are not intended to enrich one party at the expense of the other party and must not show an unwillingness to share the resulting benefits. If there are no profits to be earned, what purpose would a foreigner have to come here? If equality and mutual benefit is the foundation, why should we not gladly cooperate, though we allow some profits to the other party, as long as we thereby can accelerate our modernizations?

3. The mentality of the "quadrangle" [the traditional walled-off Chinese compound with houses around a central courtyard], the mentality of "small but comprehensive" [running a small enterprise that tries to be completely self-reliant in its operations], and the idea of being a "small shop owner" all by oneself, never in need of assistance from others. That means considering it the safest way to do everything by oneself, regarding one's own independent progress as the most dependable achievement, and feeling most comfortable if left to rule one's own little domain. It means being disinclined to initiate, to explore new ways, to undertake risks, to cooperate with others, to set up enterprise conglomerates, and even less inclined to break into the international market and engage in large undertakings and become a large entrepreneur. As we now profess opening to the outside world, it means that we should adopt an outward as well as an inward orientation; it means that we may invite in, but also extend our efforts toward the outside. Running one's own little "village fiefdom" or "quadrangle" is actually embracing the small-scale production mentality, which is quite incompatible with socialized large-scale production. In the tempestuous advent of the commodity economy, this attitude not only prevents us from enhancing our competitiveness and from stimulating viability and vitality, but on the contrary is bound to lead to our own elimination from the competition.

4. The ideology of treating stability and progress as two distinctly separate things and as hostile opposites. It

means, that once stability is emphasized, to take the attitude of complete inaction and refusal to advance even a single step, not daring to courageously engage in the new ventures of reform and opening to the outside world, fearful of energetically investigating new areas of economic and social development, not daring to undertake new theoretical, ideological, and cultural explorations. To be sure, stability is the precondition for progress, but, inversely, continued economic progress, with a fairly rapid improvement of the people's standard of living, will serve as the solid foundation for social stability. The two supplement and complement each other.

5. The mentality of confusing overanxiousness for quick results in economic development with the sense of urgency in the pursuit of our modernizations. Whether it will be possible during the 1990's to consolidate and develop further the achievements that had been accomplished in the 1980's, and whether it will be possible to further promote the economic upswing and social progress have a direct bearing on the rise or decline, success or failure, of Chinese socialism, and also a bearing on the prospects and the fate of the Chinese nation. We must therefore enhance the sense of historical responsibility and the sense of urgency in our time. This is a matter quite different in character from the need to overcome overanxiousness for quick results in our economic life. We must not regard the sense of urgency as an overanxiousness for quick results, we must not equate the sense of urgency with overanxiousness for quick results, and must not allow efforts to overcome anxiousness for quick results to assume the form of stagnation and inactivity. We must make it absolutely clear that our purpose in improving the economic environment, rectifying the economic order, and in overcoming overanxiousness for quick results is to develop the economy in a steady, stable, and harmonious way, to truly give effect to the sense of urgency by engaging in effective activity, and we must not repudiate the sense of urgency.

6. A mentality of helplessness in the face of difficulties. We are certainly facing many difficulties in our modernization drive: weakness of markets, declining efficiency, insufficient funds, slow turnover, etc. Many enterprises, particularly large and medium-size state-run enterprises, have a difficult time of it. In the face of such difficulties, two completely different attitudes are to fold one's hands, resign oneself to defeat and stagnate in complete inactivity, or rather to create the conditions that will enable us to overcome the difficulties. We must, on the one hand, clearly make out whether the difficulty exists objectively and must then face up to the difficulty. On the other hand, we must also recognize that the difficulty has arisen in the course of our progress, and that at the time of its emergence it inherently bears elements that will allow us to overcome it. Provided we can detect its cause and adopt effective measures, the difficulty can turn into a stimulus. This is also the idea expressed in the sayings "through much distress a nation can arise" and "many difficulties can bring forth a viable enterprise."

7. Feelings of complacency in the face of achievements and self-satisfied contentment with things as they are. We must admit that huge achievements have been accomplished since initiation of the policy of reform and opening to the outside world. Especially in the 1990's, the Asian Games have been a great success. Stimulated by this event, work of all kinds has attained new heights of perfection; this has to be fully affirmed. However, some comrades have become dizzy with these temporary successes, and their only ambition is to conserve the state of things, making no attempt to progress any further. Achievements only explain the past, but are no indications of the future. If one were only to remain intoxicated with the height of past successes, and were not to take them as starting point to struggle toward an even higher stage, it would in the end prove absolutely impossible to even maintain that present stage, and the result would certainly be a relapse into a state of backwardness.

8. The mentality of blind worship of foreign things and of fawning on foreigners. During our drive of opening to the outside world, some comrades failed to distinguish between dross and essence, and, at the same time as they imported capital funds, technologies, and management methods, they also imported decadent and rotten things. There have even been many such ridiculous episodes as the repurchasing at a high price of articles that had been exported by China but returned under a foreign label. China's economy is comparatively backward, but not backward in everything. Even where a foreign article is advanced, it must be determined when its importation is boldly initiated whether it is suited to the realities prevailing in China. If importation is carried out unmindful of national conditions, it will not only be ineffectual in promoting the progress of China's modernization, it will, on the contrary, constitute an impediment on all our activities.

9. The mentality of attaching importance to money and materials while neglecting scientific and technological education—considering money and materials as something substantial, hard, and immediate, and regarding scientific and technological education as something insubstantial, soft, faraway, being mindful of the saying “faraway water will not still my present thirst,” that is, as something intangible or something one cannot hold on to. This is actually a mentality of eagerness for quick success and instant benefit, and shows a lack of long-range vision. Lack of foresight will soon bring sorrow. If it is impossible to broaden the mental outlook, if there is no simultaneous consideration of imminent profit and long-range benefit, even the imminent profits will not be safe for very long; it will not be possible to protect them. Competition today is essentially a competition of science, technology, and human talent. Only by expending energy on science and technology and the nurturing of talent will it be possible to maintain one's position in the ongoing competition.

10. The mentality of “considering service records and lining up people by generations” and “demanding complete perfection,” and of not daring to promote middle-aged and young talent outside of the ordinary routine. Worrying about their youthfulness and limited experience, being afraid of objections from the older generation, afraid of causing resentment among those of the same generation, afraid of making “awry arrangements,” always intent on finding a completely perfect specimen, one to which everybody can “nod” as an expression of esteem, and so on, and so forth. Achieving the objective of “quadrupling” the GNP by the end of this century makes it even more necessary to nurture as soon as possible a large contingent of active and dynamic middle-aged and young cadres who will courageously take on the heavy burdens. Construction of our modernization in the 21st century makes it even more necessary to train as soon as possible key members of the leadership who will firmly maintain the socialist orientation and who will be true talents and possess sound knowledge. Replacement of the old by the young is an unavoidable law of nature. If we do not as quickly as possible place a contingent of middle-aged and young cadres who show good promise into positions of leadership, our undertakings are bound to lose all vitality, and we shall even create a “break in continuity” with no one to enter into the inheritance. We must realize that “considering service records and lining up people by generations” can only suppress human talent and will also definitely not lead to “level arrangements.” As to middle-aged and young cadres, we must look for political integrity; the “completely perfect person” we shall never be able to find. In this respect we must show some boldness of decision and show less cautious hesitancy.

The above has dealt with 10 aspects that have been picked out as the most important. In essence, all these mentalities run counter to materialist dialectics; they are the result of ensnarement in subjective metaphysics. Without an expedient elimination of these mentalities, it will be impossible to achieve quadrupling of the country's GNP.

## NORTHWEST REGION

### Xinjiang Students Vanguard of Democracy Movement

91CM0351A Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 51, 15 Mar 91 pp 28-29

[Article by Chin Chi (6855 7535): “The Xinjiang Student Movement and the Wang Enmao Dictatorship—An Overlooked Democratic Vanguard”]

[Text] Xinjiang's students were the first to take to the streets to demand democracy under Chinese Communist rule. Their organization is tight and order is very good. They are not out of control. Hu Yaobang sympathized with the students without having to step down; however, today's Chinese leaders are making one mistake after another on nationalities issues.

There is a tremendous amount of informed opinion about China in foreign countries, but the number of people who specialize in reporting about national minorities is scarcer than hens teeth. In this neglected corner, much that is reported is also inconsistent with the truth. For example: "The Kazakh people of northern Xinjiang, and the Mongolians who are adherents of Lamaism have not come under the centripetal force of Islam." "The various minorities of Xinjiang are scattered everywhere, and most live a nomadic or semi-nomadic life. It is impossible to define what territory is theirs; they lack interest in independence." "Xinjiang and Tibet are different. Before the Qing Dynasty, Tibet was never formally a part of China, but during the Qing Dynasty, Xinjiang was a province of China."

#### **Xinjiang Herdsmen Only Account for One-Fifteenth of the People**

The Kazakh people accepted Islam as far back as the 15th century. Today, all the Kazakhs in Xinjiang are Muslims. The Mongolian people played a most important role in the spread of Islam in China. As far back as the 13th century, Mongolian expeditionary forces forced hundreds of thousands of Middle Eastern peoples, Iranians, and Arabs who believed in Islam to move to China. The Genghis Khan's second son, Jagatai, converted to Islam, and he forced all nationalities in Xinjiang to convert to Islam. If one were to say in Xinjiang today that "the Kazakhs have not come under the centripetal force of Islam," the straightforward Moslems would certainly become very angry, and draw their swords to do battle.

Xinjiang's largest minority, the Uygurs, had mostly abandoned their nomadic life and settled down by the time of the Song Dynasty. Today fewer than one-fifteenth of Xinjiang's population are herdsmen. Furthermore, most of these remaining herdsmen are semi-nomadic. Herdsmen who live a purely nomadic existence are virtually nonexistent. Xinjiang is an important communications hub between east and west through which large conquering armies have passed for several thousand years, and where natural disasters have raged ceaselessly. All nationalities in Xinjiang are able to withstand these natural disasters and human depredations because each of them has its own centralized residential area, and all can clearly define and are deeply attached to their own "national territory."

#### **Historically, Xinjiang Has Not Belonged to China For Long**

Ever since Han Wudi sent Li Guangyuan to attack Dayuan, the central power on the central plains of China has tried many times to bring Xinjiang under its direct control, but every suzerainty was in name but not in fact, and it did not last long. The protectorate that the Western Han set up in the western territory during the second year of Shenjue [B.C. 62] in the reign of Xuandi was abandoned during the Tianfeng period [A.D. 14-20] in the reign of Xinhui. Though the Eastern Han twice set

up protectorates there, they lasted less than 15 years. During the third year of the Xianqing reign [A.D. 658] in the Tang Dynasty, a protectorate was established at Anxi, and in the second year of the Changan reign [A.D. 702], the Beiting protectorate was established at Tingzhou and extended to the west of the Cong Range only to be withdrawn during the Tianbao Period [A.D. 742-756]. During the Zhenyuan period [A.D. 785-805], both protectorates were abandoned. During the Song Dynasty, the western frontier reached only as far as today's eastern Gansu. Although a province was founded at Alimali in the Ili region of Xinjiang during the Yuan Dynasty, it lasted only one or two years. During the Yuan, most of Xinjiang was under the rule of the khanates of Ogodai and Jagatai. During the Ming Dynasty, the Great Wall extended only to Jiagu Pass. Ming rule did not extend beyond the pass. The Qing army did not fight its way into Ili until 1755. During the 2,000 years extending from the Han to the Qing dynasties, the central power on the plains of China exercised nominal suzerainty over Xinjiang for only 300 years. If one says that the people of Xinjiang "have no interest in independence," historians will smite the table and rise to their feet.

The Qing Dynasty made Xinjiang a province in 1884, just 27 years before the demise of the dynasty. Furthermore, it was only along a narrow corridor extending from Zhenxi to Dihua that the system of prefectures and counties was put in place. In most places in Xinjiang from north to south, the Zhasake [phonetic] system and the Boke [phonetic] system prevailed. Following the Wuhan Uprising, the generals of the Qing court and the provincial governor were driven out at once, and Xinjiang once again was free from the power on the central plains of China.

#### **The 40 Year Dictatorship of Wang Zhen [3769 7201] and Wang Enmao**

Today China has a minority population of 91 million. Mainland China autonomous national areas and administrative regions cover an area of 6.1 million square kilometers, which is 63 percent of the country's total area. However, China's minorities have not received sufficient or accurate recognition. This is probably one of the reasons why China does not yet have democracy. Occidentals were shocked to discover on Tiananmen Square that some students who were willing to sacrifice all for democracy did not support the appeals of the Tibetan people. The author was also amazed to find that mainlanders abroad who have taken part in democratic movements or who have studied democratic movements for many years do not know that the first students to take to the streets in large scale demonstrations calling for democracy were minority nationality students from Xinjiang.

In December 1985, Xinjiang minority nationality students first took to the streets of Urumqi in large scale demonstrations openly calling for democracy that later spread to other cities. Xinjiang students studying in

Beijing and Shanghai responded. The direct reasons causing the students to take to the streets were the actions of the "king of Xinjiang" Wang Enmao. While in Yanan, Wang Enmao had worked closely with Wang Zhen for many years, and they led forces together into Xinjiang. After Wang Zhen left Xinjiang, Wang Enmao held full authority for ruling Xinjiang for several decades. In 1985, Wang Enmao stepped down to become chairman of the Chinese Communist Xinjiang Advisory Committee, but he continued to issue orders, controlling everything. The chairman of the Xinjiang Autonomous Region government at that time, Ismail Amat, was not yet 50 years old. A college graduate, he was in the prime of life, and an outstanding figure among minority nationality cadres. But Ismail stuck in Wang Enmao's craw. He insisted that the Xinjiang People's Congress expel Ismail at its December 1985 meeting, replacing him with Tomur Dawamat, who was more than 60 years old and had only a primary school education. Wang Enmao manipulated the people's congress out of personal antipathy, trampling democracy and angering the students.

#### **Xinjiang Students First To Take to the Streets for Democracy**

The Xinjiang students did not lose their reason. After the event, they planned to use peaceful and nonviolent means to collectively take to the streets, courageously raising the slogans of "Open Election of Leaders," and "Hold Fair Elections." In view of other Chinese Communist mistakes, they also raised the slogans of "Oppose the Banishing to Xinjiang of Convicted Inland Criminals," "Xinjiang Must Not Be a Labor Reform Camp," "Oppose Pollution of the Environment," "Oppose Nuclear Testing in Xinjiang," "Welcome Han Nationality Intellectuals," and "No Convicts and No Nuclear Pollution."

The demonstration organization that the Xinjiang students formed was very disciplined. Although the number of people who demonstrated each time numbered several thousand, and the demonstrators' column extended two or three kilometers, they were in a neat formation, most of them moving along sidewalks to avoid impeding traffic insofar as possible. Their slogans were also uniform. They positively did not allow passersby of uncertain identity to take part, nor did they forcibly resist the army and the police. Although he several times threatened to use force, Wang Enmao found no opportunity for repression. He was never able to use force.

When he heard that the students had repeatedly taken to the streets, Hu Yaobang, who had sympathized with the students all along, rushed forth to clear up a messy situation. He knew very well that the blame lay with Wang Enmao, but he also knew that he could not move Wang and his supporter, Wang Zhen. All he could do was urge Ismail to come to Beijing to become an official in the capital as chairman of the State Nationalities Affairs Commission. At the same time, he requested minority nationalities cadres to urge the students to stop taking to the streets. Hu benefitted on this occasion from his prestige among the students. This made his "pacification" policy effective. Ismail agreed to go to Beijing to take charge of nationalities affairs, and the students agreed to return to school to resume classes.

#### **Chinese Communist Leaders Worse Than Qing Dynasty Emperor**

The demonstrations in cities by Xinjiang students stimulated and encouraged many students in the interior. Nine months later, inland students started their own student demonstrations based on "September 18." By comparison, the political demands of the Xinjiang students had been much greater than those of the inland students, and even exceeded the demands of the "1989" student movement. However, because of the tight organization and the very good order, the outcome was different from that of the "1989" student movement. There was neither loss of control over the situation leading to bloodshed, nor did they cause student sympathizer Hu Yaobang to step down.

Most Chinese Communist leaders have no understanding of minorities; consequently they make one mistake after another with regard to nationalities matters. They themselves realize that the "sons of the Chinese dragon," the emperors Kangxi and Qianlong, made an effort to learn Mongolian and Tibetan, and they admit that not one of the princes in Zhongnanhai who are "servants of the people" can speak a sentence of any minority nationality language. Some minority nationality leaders feel that the Chinese Communist leaders do not understand or respect the minority nationalities as much as the Qing Dynasty emperors. If the new generation determined to struggle for democracy does not comprehend, or has no understanding at all of the minority nationalities, it can only take the same old disastrous road. If nationalities problems cannot be solved, even if the despotism is overthrown, at least half of China will be without peace.

### Six-Year Plan Seeks To Attract Foreign Investment

91CE0357A Hong Kong CHING-PAO [THE MIRROR]  
in Chinese No 2, 10 Feb 91 pp 72-75

[Article by Li Hsueh-yen (2621 7185 0917): "The Six-Year National Construction Plan and Practical Diplomacy"]

[Excerpts] Taiwan's Six-Year National Construction Plan finally appeared at the end of last year. According to presently disclosed data, in six years beginning with this year, they will invest approximately US \$310 billion.

The Six-Year National Construction Plan's initial role in practical diplomacy will be to budget over US\$300 billion to lure capitalist countries. The first to come knocking at the door is France.

### Six-Year "National Construction" Invests US\$300 Billion

Taiwan's Six-Year National Construction Plan that came out at the end of last year was begun by Hao Po-ts'un [6787 2672 2625] right after taking up the post of president of the Executive Yuan last 7 June and passed on to Mrs. Kuo Wan-jung [6753 1238 1369] as chair of the Council for Economic Construction to coordinate with all of the ministries and commissions and all of the local governments. After six months of study and drafting, the initial plan was formulated. According to presently disclosed data, in six years beginning with this year, they will invest approximately US\$315 billion. The mainstay will be 821 substantial construction projects. By specific planned investment amounts,

32.3 percent will be for transportation and communication; 14 percent for urban housing; 11.6 percent for energy exploitation; 9.9 percent for social welfare and security; 9.2 percent for culture and education; 5.2 percent for water conservancy and flood control; 3.9 percent for industry; 3.4 percent for environmental protection; 3.3 percent for agriculture, forestry, fisheries, and animal husbandry; 2.7 percent for science and technology; 1.5 percent for travel and tourism; 1.3 percent for medicine and health care; 0.5 percent for the service industries; and 1.2 percent for the remainder. If the Six-Year Plan goes smoothly, the average per capita national income will increase from US\$8,000 in 1990 to US\$14,000 in 1996. Transportation and communications projects, the greatest investment, include the around-the-island convenient transportation net, the metropolitan district high-speed highway, the south-north high-speed railroad, 260 kilometers of rapid transit systems for the six large metropolitan districts, and modernization of the eastern communications. Second is urban housing construction. In six years, they plan to construct 900,000 new residences. In the plan every village would build a swimming pool and a baseball diamond and every urban neighborhood would have a children's playground and a community center as well

as widespread construction of district hospitals, supermarkets, and shopping centers. Quite obviously the emphasis is on improving the quality of life and well-being. The proportion of investment directly creating productive capacity is not high. Especially where a large amount of agricultural land is being converted to industrial and service industry use, the agricultural plan was dead last.

### After the Plan Came Out, There Was Much Discussion

After the draft of the Six-Year National Construction Plan came out, there was general agreement on the orientation. The only controversy was on various technical aspects. [passage omitted]

Another of the most common criticisms was that it would not be easy to raise the huge amount funds required. First, Finance Minister Wang Chien-hsuan [3769 1696 8830] sounded a contrary note. He pointed out that we should "estimate our resources before acting," because if we deduct the investments of public enterprises from the over US\$300 billion, we would have over 233.3 billion that we would have to rely on issuing government bonds to raise. And the Council for Economic Construction and the Finance Ministry in calculating their sixth year bond deficiencies, put their shortfall at 25 percent of the gross national product for the former and over 78 percent for the latter. According to its own calculations the Ministry of Finance believes that it is too difficult. But quite a few people from business circles do not believe that funds are a problem. Some have suggested raising taxes, selling stock in public businesses, or opening it up to the participation of private funds. If there still is a problem, the projects could be reduced and construction time extended.

In addition to funds, human resources also are a problem. According to the plan, in the six years a workforce of 1.8 million would need to be added, 1.41 million of them technical personnel. But in six years Taiwan can only increase the workforce by 1.42 million and there are only about 100,000 college graduates a year, so there is no way for Taiwan to satisfy the technical workforce requirement. If they open up the entrance of foreign workers, it could bring on a great many social problems. Moreover, concentrating human resources on the Six-Year National Construction Plan also could change the industrial structure and the export sector could shrink correspondingly. The general public is most concerned about project quality, because on most Taiwan projects, governments at every level, to curry favor with politicians at every level, contract out the majority to the dummy engineering companies of politicians at every level, and they in turn contract them out to ordinary builders. After going through several layers of this exploitation, the building contractors, in order to make a profit, have no choice but to do less work and use less or inferior materials than agreed upon. Thus, the tragedy of classrooms or markets collapsing often occurs in Taiwan, and with a little bit of extra rain, dikes break



everywhere, all thanks to Taiwan's "democratic politics." And imagine how many of these millionaires US\$315 billion could satisfy. Knowledgeable people in Taiwan already are appealing for "Six Years of National Construction and Priority to Political Style." If the political style is as corrupt as ever, it is hard to imagine that there could be quality construction worthy of the name. Because there are a great many opinions on each aspect, Hao Po-ts'un did not immediately make a final determination, but decided first to confer with all sectors and then make a final decision. But now imminent action is expected. If there is nothing totally unforeseen, either there will be some internal adjustments or the entire plan must be passed and implemented on time. So those who are concerned about Taiwan's future development, must pay attention to its effects.

#### **The French Minister Rushes To Be the First To Knock**

The officially publicized goals of the Six-Year National Construction Plan are: 1) to raise the national income and enjoy a better life; 2) to improve the quality of life and the environment and expand domestic needs and change the past emphasis on exports to a balance of imports and exports; 3) to generously nurture the industrial potential and to continue to develop Taiwan's economy. But its political significance is more important. It is important in the struggle between the two sides [of the Taiwan Strait] to further increase its strength and position to resist the Chinese Communists. Its function is first displayed in practical diplomacy.

The first function of the Six-Year National Construction Plan in practical diplomacy is to budget over US\$300 billion to lure capitalist countries. If it is handled well, it will not be hard to use this to improve or further upgrade relations with large Western nations. The first guest to come knocking was France.

The French Minister of Industry and Land Management, Roger Fauroux, ordered by the French president and prime minister, led a delegation of 60 high-ranking government officials and 12 famous French entrepreneurs on a six day visit to Taiwan, 5-10 January. [passage omitted.]

In 1964 France established diplomatic relations with the Chinese Communists, and only in 1978 did they set up a French Asian Trade Promotion Council on Taiwan. Later, one after another they also established such organizations as the Taipei-French Science, Technology, and Culture Center, the French Industry and Commerce Taipei Association, and the French Asian Industrial Cooperation Organization. In 1988 they also changed their office on Taiwan to the French Association on Taiwan. There are presently five French banks with branches and branch offices on Taiwan. Last year Taiwan's trade with France amounted to US\$2.263 billion, with imports and exports essentially balanced. Presently one-third of the uranium fuel used by Taiwan's three nuclear power plants is supplied by the French state-owned Cogema Company. The Matra Group bid for the

Taipei Rapid Transit System project, and last year bid for 85 percent of the South-North High-Speed Railroad Evaluation Project. Aerospatiale Aerospace Company sold the Ministry of the Interior Police Administration two helicopters for police use. The Alsthom Company contracted for such electric company projects as the Ming Piao [2494 3343] Hydroelectric Project. Several large French companies have established bases in Taiwan. France and Taiwan have a history of over ten years of scientific and technical cooperation. The Taiwan National Science Association has a good basis for cooperation with their French counterparts in such fields as medicine, biotechnology, mathematics, geology, and nuclear energy. The main objectives of this Fauroux-led delegation were such projects as Taiwan's nuclear waste processing project, the construction of four nuclear power plants, the South-North High-Speed Railroad Project, projects related to aerospace programs, and environmental protection projects. Li Teng-hui [2621 4098 6540] personally told Fauroux that he was considering introducing new French nuclear energy, environmental protection, and rapid transit project technology. The South-North High-Speed Railroad Project contract is all but agreed to.

#### **France's Reciprocation for Receiving This Great Amount of Business**

Naturally if France wants to get these major deals, it must pay a price. The first thing is to support Taiwan's entry into the General Agreement on Tariff and Trade (GATT), and France already has promised action. The second thing is direct air links between Taipei and Paris. This also is pretty much agreed to. In addition, Taiwan also requests high technology transfers. Both sides have decided to establish the Industrial Technology Cooperation Group and immediately initiate the task. As regards Taiwan's desire to upgrade diplomatic relations, before leaving Taipei Fauroux officially indicated that France is not prepared to change its diplomatic relations with the Chinese Communists. The development of French-Taiwan relations must be on the basis of doing no harm to French-Chinese Communist relations. So, they must be low-key, cautious, and handled clandestinely. If France is only able to obtain a large number of contracts in the Six-Year National Construction Plan, bilateral relations will naturally be slowly upgraded, and if even more important officials from the two sides pay mutual visits and the numbers of personnel in the offices of both sides are increased, it also can be expected that the level of the offices will be gradually upgraded.

It is worth noting that among that delegation was Leich'ing-meng [7191 1906 5536] the mayor of Lorient. Lorient is where the French LaFayette naval combatant ship is built. Last year France was pressured by the Chinese Communists to stop the sale of a LaFayette ship to Taiwan. This year when the mayor came again, the old topic certainly could be brought up again. The source for the purchase of guided missile cruisers in the Kuang-hua [0342 5478] Plan has not yet been determined and the LaFayette ship is still under consideration. Under the

guided missile cruiser program, plans include building 16 ships with anti-air, electronic warfare, and surface warfare capabilities within 11 years, in addition to shore-based and antisubmarine helicopter refueling capabilities. The whole program is budgeted at US\$5 billion. To avoid Chinese Communist obstruction, it is possible that the Chinese ship company could send someone to France to study building technology and obtain the blueprints. The first ship could be built mainly by French engineers with the assistance of Chinese shipbuilders; the second could be built mainly by Chinese shipbuilders with French assistance; and the third could be built by the Chinese shipbuilders by themselves. If the French are only willing, there is a great deal of hope to clinch the deal. The likelihood of rumors about purchasing air force warplanes from France is very slight. Presently, the object of Taiwan's purchases still is the United States made F16C, because its control system and spare parts are largely compatible with Taiwan's domestically produced IDF aircraft, and the selling price is rather low. But the overall structural system of the French Mirage 2000 is totally different from the United States aircraft, and there are difficulties with the pilot training, repair crew training, and supply of spare parts. In addition, the manufacturing price is rather high.

When Fauroux visited Taiwan, he reaped a great deal and caused quite a stir among the European Common Market nations. Several European Common Market people in Taiwan set out one after the other to get information on the Six-Year National Construction Plan. Some European newspapers even thought that Fauroux came to Taiwan to pave the way for normalization of relations between Taiwan and the European Common Market nations. They thought some European Common Market nations could very quickly follow in Fauroux's footsteps and send high-ranking government officials to Taiwan to strengthen bilateral relations. The Six-Year National Construction Plan has already become a powerful motivating force for Taiwan's "practical diplomacy."

#### **The "Soviet Fever" Has Encountered Repeated Setbacks**

In recent years, Taiwan has not spared any effort in promoting "practical diplomacy" backed by economic strength. It is only natural to use the Six-Year National Construction Plan now to further strengthen this function. The "Soviet fever" has been stirred up in Taiwan since last fall, and the new and changing situation in the Soviet Union and East Europe has been used to actively strike this forbidden diplomatic area. Since the last half of last year, there have been frequent exchanges of people from financial and economic circles and political circles from both Taiwan and the Soviet Union, climaxed with the arrival in Taiwan of Moscow Mayor Gavriil Popov. Taiwan has now established intermediary organizations for Taiwan-Soviet relations. For instance, the Chinese-Soviet Economic Development Association, headed by chairman of the board of directors of the Overseas Chinese Bank Ts'ai Shao-hua [5591 4801 5478], the Chinese-Soviet Literary Classics

Exchange Association headed by chairman of the board of Feng Yü [0023 3768], Liao Hung-i [1675 1738 3015], the Chinese-Soviet Economic Trade Exchange Fund headed by chairman of the board of Ch'iang Pang [1730 2831], Industries Chang Yü-hung [1728 5940 1347], legislative committeeman Ts'ai Chung-han's [5591 0022 3211], Taiwan-Soviet Economic Trade Fund, and legislative committeeman Hsieh Lai-fa [6200 0171 4099] and national assemblyman Lin Tsu-ch'ing's [2651 6327 3237] company all specialize in doing business with the Soviet Union. In addition, Chung Shan [0022 1472] University Professor Wei O-cheng [7614 5501 2973] is promoting the establishment of the Chinese-Soviet Economic Development Association and the official Ministry of Economic Affairs is actively promoting the establishment of the Chinese-Soviet Economic Exchange Fund. It even goes further than the "mainland fever" of the year before last. It is simply that the "Soviet fever" receives vigorous encouragement and support from the authorities and the "mainland fever" was suppressed and cooled by the authorities.

Although relations between Taiwan and the Soviet Union have made progress, there also have been setbacks. Early last November, a Soviet purchasing delegation from Moscow went to Taiwan and the media announced that "they were carrying US\$1 billion." Taiwan businesspeople were very excited. Because of this, an extremely enthusiastic I-hsing [1138 5281] Company rushed to sign a US\$100 million purchase agreement with this delegation, writing only a US\$10 million letter of credit with the rest in trade. As a result, chairman of the board of I-hsing Ch'en I-an [7115 1837 1344] on his return to Taiwan from Moscow this January announced that because the Soviet trading company did not keep their promise and did not pay cash on the letter of credit, there was no way to obtain an export permit for the transfer of urea. So, the US \$100 million agreement was a "total bust." [passage omitted.]

#### **Making Persistent Efforts in Practical Diplomacy**

After establishing a trade office in East Europe in Hungary, Taiwan originally had the possibility of setting up offices in Poland, Czechoslovakia, and Yugoslavia, but because the Ministry of Foreign Affairs insisted on using the name "Taiwan Economic and Cultural Office" and giving it the concurrent function of a consulate, they have not yet obtained the agreement of the other side. The Taiwan Ministry of Foreign Affairs believes that since the East European countries want Taiwan's funds, they must use the present advantage. Otherwise, if they establish an insufficiently official organization, it will be difficult to upgrade it at a later date. According to legislative committee man Chang Shih-liang [1728 0013 5328], when Polish President Walesa met him last 20 December, he indicated that he was willing to consider establishing relations with Taiwan according to the principles of mutual benefits and mutual respect. There also has been progress with Asian Communist countries. North Korea has opened tourism with Taiwan and visas can be obtained at the North Korean consulate in

Macao. A "trade association" office has been established in Vietnam in the Yao-te [5069 1795] Building in Ho Chi Minh City. The advanced opening is in March and the formal inauguration is in June. Both sides are near agreement on direct air and sea transport.

Taiwan's relations with all of the Southeast Asian nations have made progress. Although Singapore has formally established diplomatic relations with the mainland, its relations with Taiwan are even closer. Indonesia signed an Investment Guarantee Agreement with Taiwan last 19 December. The Philippine-Taiwan Reciprocal Relations Act that pro-Taiwan Philippine legislators are deliberating could be passed sooner or later. Because last year Taiwan's investment in the Philippines reached over US\$200 million, exceeding the United States and Japan, events have overtaken the people! Although Saudi Arabia has broken diplomatic relations with Taiwan, relations between the two remain almost unchanged. Taiwan has established "Taipei Economic and Cultural Legations" and "branches" in Riyadh and Jeddah and their personnel still enjoy diplomatic privileges and immunities. At the same time, the legation is still established at the former embassy and maintains ownership of the property and the Chinese Communists cannot get it. What is most noteworthy is that Bolivia in South America established commercial and consular relations with Taiwan while maintaining diplomatic relations with the mainland. Brazil, Peru, and Chile in South America added "Taipei" to the names of the legations and they enjoy partial diplomatic immunity. In addition, the "Taipei Economic Office" has been established in Canada and a legation has been established in Italy. It is already extremely clear that all of the economically powerful countries are thinking of changing or upgrading their relations with Taiwan. Australia is the most representative. R.J. O'Donovan, the head of their Commerce and Industry Office in Taiwan pointblank told Taiwan that upgrading the name and functions of Taiwan's office in Australia has nothing to do with the Chinese Communists' attitude. It totally depends on what terms Taiwan provides. It would appear that the US\$315 billion Six-Year National Construction Plan could serve a great purpose in this regard.

The Six-Year National Construction Plan also is useful in resisting Chinese Communist pressure.

### **Japan Urged To Redress Trade Imbalance**

*OW0705113191 Taipei CNA in English 0827 GMT  
7 May 91*

[Text] Taipei, May 7 (CNA)—Japan's trade surplus with the Republic of China, which reached a record high of 7.66 billion U.S. dollars in 1990, is expected to increase further to 9 billion U.S. dollars this year, Vice Economic Affairs Minister P.K. Chiang said Monday.

"The serious trade imbalance between the Republic of China and Japan is a harsh fact that both the Japanese Government and private sector must reckon with," Chiang pointed out.

According to government statistics, Tokyo's trade surplus with Taipei in the first four months of 1991 totaled 2.96 billion U.S. dollars, up 19.6 percent from a year earlier.

If the trade imbalance continues to grow at such a speed, Chiang noted, the Republic of China's trade deficit with Japan will exceed 9 billion U.S. dollars this year.

He attributed the expanding trade gap to the appreciation of the new Taiwan dollar, a slowdown in Taiwan's agricultural exports to Japan, and the country's industrial upgrading, which has boosted the imports of Japanese high-tech products.

To solve the increasingly thorny issue, Chiang said, the governments and private sectors of the two countries should increase communications and jointly work out long-term and comprehensive strategies to adjust trade relations.

### **Japan Top Supplier of Industrial Technology, Know-How**

*OW0705104991 Taipei CNA in English 0754 GMT  
7 May 91*

[Text] Taipei, May 7 (CNA)—Japan is the Republic of China's [ROC] top supplier of industrial know-how and an increasing number of Japanese companies are conducting new product research and development projects in Taiwan, the China External Trade Development Council [CETRA] reported.

ROC companies signed 3,222 technical cooperation contracts with foreign counterparts between 1952 and 1989; 62 percent of them were with Japanese firms, CETRA said. The percentage was far higher than America's 22.6 percent.

CETRA also quoted a Japanese marketing research institute as reporting that 26 percent of the Japanese companies the institute surveyed have begun new product research and development projects in Taiwan, an indication that Japanese industrialists respect ROC technological levels.

Meanwhile, a Council for Economic Planning and Development official said yesterday that the depreciation of the new Taiwan [NT] dollar against the Japanese yen will not help narrow the huge trade imbalance between the two countries because Taiwan relies heavily on Japanese technology and machinery parts.

The official said the NT dollar has depreciated 17 percent against the yen over the past five years, while Taipei's trade deficit with Japan has more than tripled.

Theoretically, the official said, a currency devaluation should help boost exports and curtail imports. In the Sino-Japanese trade, however, the NT dollar's depreciation has failed to increase ROC exports to Japan, he added.

The exchange rate between the yen and the U.S. dollar was 242:1 in 1985 when that for one U.S. dollar was 40 NT dollars; nowadays, the exchange rates are one U.S. dollar for 138 yen and for 27.3 NT dollars respectively. "This means our national currency has depreciated 17 percent against the yen during the past five-and-half years," the official noted.

Government tallies show Taiwan's trade deficit with Japan zoomed from 2.08 billion U.S. dollars in 1985 to 7.66 billion U.S. dollars in 1990, a 3.6-fold growth. ROC shipments to Japan grew at an annual rate of 13 percent during the five-year period, while annual imports grew 37 percent.

The official attributed the rapidly widening trade gap mainly to Taiwan's heavy reliance on Japanese imports. "The only solution to the problem lies in the development of import-substitute industries," he stressed.

The Board of Foreign Trade [BOFT] also pointed out that over the past two decades, the ROC's annual imports from Japan posted declines only in 1975, 1983, 1985 and 1990 when the country's export industries were also in doldrums.

BOFT said capital equipment, machinery parts and components and raw materials form the bulk of Japanese imports and are all items badly needed by local export-processing industries.

Another major reason for the widening trade gap is that many local manufacturers are reluctant to actively tap the high discriminating Japanese market, BOFT officials observed. As Japanese consumers are quality-conscious, local companies should upgrade technology and product quality in order to expand their share of the Japanese market, the officials urged.

#### **Minister on Research, Development Center**

*OW1005115891 Taipei CNA in English 0824 GMT  
10 May 91*

[Text] Taipei, May 10 (CNA)— The Ministry of Economic Affairs is planning to invest 6 billion NT [new Taiwan] dollars to establish 8 to 12 technology research and development centers in Taiwan within six years to help manpower training and technology development and transfer to private enterprises.

Vice Economic Affairs Minister Lee Shou-chou said that the move is a part of the ministry's program to create comprehensive regional research and development center project.

Lee said the centers scattered around the island will be staffed by 4,000 experts from research organizations, private enterprises and business associations.

#### **Economic Ministry Reports Increased Investments**

*OW1005120891 Taipei CNA in English 0820 GMT  
10 May 91*

[Text] Taipei, May 10 (CNA)— The government approved 126 foreign and overseas Chinese investment applications for 688 million U.S. dollars in the first four months of 1991, a 9.79 percent increase over the same period of 1990, the Economic Affairs Ministry's investment commission reported.

Electrical appliance and electronics accounted for 49 percent of the total approved investments, followed by chemicals, machinery and basic metals.

Taiwan applications to invest abroad totaled 134 for a value of 907 million U.S. dollars, a huge 146.45 percent increase over the corresponding period of 1990. Malaysia absorbed the largest amount of Taiwan investment funds totalling 372 million U.S. dollars, a 10-fold increase, followed by Indonesia at 85 million U.S. dollars, and the U.S. at 67 million U.S. dollars.

The commission attributed the sharp rise in Taiwan investments in Malaysia to that Southeast Asian country's investment incentives.

Basic metal manufacturing, totaling 340 million U.S. dollars was the largest recipient of outward Taiwan investment, followed by financial and insurance services.

#### **Naphtha Cracking Plant Construction To Begin at Year's End**

*OW1105201691 Taipei CNA in English 1453 GMT  
11 May 91*

[Text] Taipei, May 11 (CNA)—Dust over the much publicized sixth naphtha cracking plant in Taiwan, proposed by petrochemical tycoon Wang Yung-ching, is finally beginning to settle.

Reliable sources said the naphtha cracker planned by Wang's Formosa Plastic Corp. will be built in Mailiao, Yunlin county in central Taiwan, probably by the end of this year.

Formosa Plastics and the Industrial Development Bureau have jointly planned a "west coast petrochemical zone" that includes three pieces of land, the sources said.

Formosa Plastics has purchased 600 hectares of land in Mailiao for the plant, and the bureau has allotted 8,000 hectares of reclaimed land and another 3,600 hectares in Changpin Industrial Zone for related industries, according to the sources.

They said Formosa Plastics President Wang Yung-tsai, brother of Wang Yung-ching, is likely to announce the new site for the NT\$100 billion (U.S. \$3.7 billion) investment project 16 May.

Last year Wang Yung-ching alarmed the government by secretly visiting mainland China to discuss possible cooperation with the Chinese Communist authorities to build the cracker in Fujian Province.

Officials here said the Mailiao project had been kept secret to avoid "unnecessary entanglements" in cross-straits politics and "unnecessary anti-plant lobbying" by environmentalists.

### **Increased Exports to Germany Continue**

*OW1405094291 Taipei CNA in English 0752 GMT  
14 May 91*

[Text] Taipei, May 14 (CNA)—Exports to Europe in general, and to Germany in particular, have grown rapidly in recent years, as manufacturers here work to expand the market further in preparation for a unified European market.

Germany is now the fourth biggest importer of Taiwan products. Exports to Germany in January-April this year accounted for 5.9 percent of total ROC [Republic of China] exports compared with 3.2 percent in 1986. In comparison, Japan took 12.9 percent of ROC exports.

Taiwan exports to Europe have seen dramatic increase in the past four years. ROC exports to Europe accounted for 12 percent of its total exports in 1986; the share shot up to 18.2 percent in 1990. The ratio rose to 20.8 percent in the first four months of 1991.

Officials in charge of economic planning said that European-bound exports, spurred by the devaluation of New Taiwan dollar against European currencies in the second half year last year, have maintained a growth of 20 percent.

In the first four months in 1991, the growth rate was 21.4 percent, with exports to Germany growing the highest at 42.5 percent. The boom was attributed to the tremendous demand resulted from the unification of Germany.

Economic officials said that the value of the Deutsche mark against the New Taiwan dollar has appreciated 34 percent in the past five years, and has contributed to the jump of Taiwan exports. The growth was blunted recently when the parity of the New Taiwan dollar against the Deutsche mark appreciated nearly 20 percent.



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